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ECONOMIC PHASES OF THE WHOLESALE MARKET

Wholesale trade occupies an important position in American economic life. The industry as a whole handled a volume of business valued at more than $69,000,000,000 in 1929. Employment was given to 1,605,042 people and more than $3,000,000,000 was distributed in the form of salaries and wages.

Wholesale trading is an ancient institution with its roots deeply imbedded in the beginnings of civilization. That the wholesale merchant continues to flourish today in spite of a number of developments which tend to eliminate him is an interesting example of the survival of economic institutions. The rise of chain-store systems and the spread of "direct selling" by manufacturers have given the old-line wholesaler severe competition. His ability to survive rests upon the economic principle of specialization. If he will take full advantage of his position as a specialist with all that this implies, his elimination is not as certain as his critics have been so ready to predict. The available facts indicate that he has certain potential advantages over competitors, which are evidenced in relatively low operating costs, and which seem to justify the conclusion that he will continue to play an important rôle in the modern distribution system.

It is anomalous that the science of economics which builds its theory upon concepts of the market has given so little consideration to the nature and scope of marketing institutions. Most of the general treatises dealing with economics devote much space to discussions of production, exchange, value, distribution, and consumption, whereas marketing, an understanding of which would seem so essential to a knowledge of actual price determination, is usually dismissed with scant attention. There are notable exceptions to this statement in the more recent textbooks;[1] but the criticism still seems justified that insufficient study has been given to the contribution which marketing economics may have for the growing body of economic doctrine.

The failure to include a more elaborate discussion of marketing is perhaps more a matter of relative emphasis than of outright neglect. It is common, for example, to define the term "production" broadly enough to embrace the activities of merchants and distributors. But when the term is actually used and illustrated, the meaning frequently narrows to manufacturing or agricultural processes, and no more is said of marketing until value or price determination is analyzed. Under the heading of price the market comes in for a slight attention, but usually in an idealized and oversimplified form. Without intending any reflection upon the necessity for abstraction in teaching so complicated

[1] Among these may be mentioned those by Bye and Hewitt; Fairchild, Furniss, and Buck; Knight and Smith; and S. H. Slichter.

a theme as the economic theory of value, it would seem that the abstraction might well be given a more realistic treatment than is commonly done.[2]

As a further example of disproportionate emphasis it may be recalled that most of our economics textbooks devote at least one chapter to foreign trade. Foreign trade is undoubtedly a subject which requires analysis by economists, but one wonders if the reason for its inclusion may not be historic rather than practical. Certainly, domestic trade would appear to have much greater claim upon the economist's consideration, if the comparative volume of business is a criterion.

Perhaps the trouble lies in an absence until very recently of adequate information about domestic markets. This is truer of the wholesale market than of retailing, since those dealers who operate between the farmer and fabricator on the one hand and the retailer on the other occupy a sort of no-man's land remote from the everyday experience of most people. Disregard of wholesaling may also be attributed to the fact that it has been looked upon as a decaying institution which would soon pass from our marketing structure.

It no doubt came as a distinct surprise to many to learn through the recent census of distribution, the wide extent of wholesaling activities in this country. There were in 1929, according to data published by the Bureau of the Census, nearly 170,000 wholesaling establishments doing over $69,000,000,000 worth of business. These concerns gave employment to 1,605,042 people and maintained a payroll of over $3,000,000,000.[3] These wholesaling establishments comprise *all* types of merchandise wholesaling concerns and should not be confounded with the typical wholesalers. There were some 74,000 of the latter, with a total volume of business in excess of $25,000,000,000. Both wholesaling in the broader aspect and the business of the wholesaler *per se* thus assume imposing proportions.

The Rise of an Institution

This substantial showing by the wholesale traders in the United States presents no difficulties to the student of economic history. He realizes that wholesalers have existed for generations, and that established institutions are not easily displaced. The typical wholesaler of today has a long lineage. It harks back to the merchant princes and to the great fairs of mediaeval cities; indeed archeological research reveals that the

[2] It was pointed out in this journal as long ago as June, 1923, by Dr. Edmund E. Day that "prevailing treatments of exchange and price and value suffer—partly because they are unnecessarily abstract and unreal. The subject should be more fully supported by concrete details regarding industrial and commercial organization and the technical processes of modern marketing." *American Economic Review*, June, 1923, p. 257.

[3] *United States Summary of Wholesale Distribution, 1933.* Bureau of the Census, U. S. Printing Office.

wholesaler plied his trade as far back as the history of civilization leads.[4]

In the United States wholesaling has its roots in the mercantile system of early colonial days. The economic advisors of King George and of his predecessors believed that the function of colonies was to afford sources of raw materials for the mother country and markets for her manufactured goods. Accordingly, merchant or trading companies were encouraged by royal grants while manufacturing was generally frowned upon if not positively forbidden. Under such artificial conditions it was not surprising that the merchant class grew wealthy and influential. It should not be contended, however, that the mercantilist policy was largely responsible for this vigorous rise of wholesale trading companies. The economic environment itself was highly conducive to such a growth. The colonial demand for manufactured products, which only Europe could adequately supply, coupled with an abundance of raw materials easily convertible into ships and exportable commodities, gave an impetus to trading which long persisted.

After the Revolution and the development of manufacturing in the United States, a more distinct separation took place between manufacturer, wholesaler and retailer. The great trading companies, already firmly entrenched in the field, easily dominated the new situation. They assumed increasing importance as the wholesale market expanded, dictating prices and holding manufacturers and retailers at their mercy.[5] Manufacturing was usually conducted on a small scale, with the proprietor much more concerned with raising capital and improving the technic of production than he was with marketing. He welcomed the services of the wholesaler as a preferable alternative to marketing his own goods from house to house, which was in fact the method frequently used during this formative period of the marketing structure.

From these small beginnings the vast and complicated wholesale structure of today has grown. With the rapid increase in population and the growth of productive efficiency a number of far-reaching changes took place. Specialization touched the wholesaler and reduced both the number of functions performed and the lines of merchandise carried. Houses which combined importing, wholesaling and retailing gave way to specialized importing concerns, to wholesalers in domestic trade, and to retailers.

Changes of this sort, however, are never complete. Economic and social developments move in parallel rather than in series. The old and new coexist and the old continues long after the new has become domi-

[4] Clive Day, *History of Commerce;* W. L. Westerman, "On Inland Transportation and Communication in Antiquity" in the *Political Science Quarterly* for September, 1928; H. H. Gowan, *Outline History of China* and *A Short History of Asia;* Paul H. Nystrom, *Economics of Retailing*—much of Chapter 3 in this book applies to wholesaling as well as to retailing; Daniel Defoe, *Complete English Tradesman.*

[5] See J. R. Commons, *History of Labor in the United States.*

nant. Thus, even today, there are many examples of establishments which combine the functions of exporting, importing, and retailing with those of wholesaling; and many wholesale concerns which have continued to handle general lines of merchandise. Changing economic conditions, while impelling the new market developments, have been slow to eliminate the earlier types, and thereby have created a complex system of distribution with many unique ramifications.

The Modern Wholesale Market

The present wholesale market consists of two distinct strata or layers; wholesalers who sell largely to other wholesalers, or to the industrial market; and wholesalers who sell chiefly to retailers. This cleavage follows functional lines. In the first group are the agents and brokers operating between the manufacturer and the wholesale dealer, and performing the strictly limited functions of buying and selling their specialized lines of merchandise. This brokerage group in the field of merchandise distribution is analogous to the better known operators on the great security and produce exchanges. The other group, sometimes called the typical wholesaler, usually maintains warehouses and performs all of the wholesale marketing functions.[6]

If the wholesale market were confined to these two superimposed strata, its analysis would be comparatively simple. In fact, however, to continue the geological analogy, certain *faults* have developed in the wholesale structure which have resulted in a confusing admixture of these two types of wholesale activity. For instance, wholesale organizations, such as sales branches owned and operated by manufacturers or other producers as part of their selling departments, chain-store warehouses, and the wholesale divisions of department stores, usually perform the work of agents and brokers as well as that of regular wholesalers. In other words, these hybrid types generally find it necessary to assume most of the wholesaling functions for the business concerns of which they are integral parts. This combination of diverse functions within the same establishment makes it difficult to follow through the flow of merchandise from producer to consumer. The fact that producer-owned or retailer-owned wholesale establishments sometimes sell to other wholesalers adds to the difficulty. Moreover, to complicate the problem further, members of both groups frequently specialize in industrial marketing, that is, in sales to manufacturers and other large-scale buyers such as railroads and contractors. However, we can obtain a fairly complete picture of our wholesale structure from available statistics.

In the first stratum, namely between manufacturers and wholesalers,

[6] See *Definitions and Classifications in Wholesale Distribution* prepared by the author in collaboration with Professor T. N. Beckman, for the Bureau of the Census. This pamphlet contains a thorough discussion of types of wholesale middlemen.

there were 18,317 agents and brokers in 1929, accounting for 20.3 per cent of total wholesale trade of $69,490,771,331. In the second group, wholesalers selling largely to retailers, there were 74,091 establishments doing 36.47 per cent of all wholesale business. In the second stratum should be counted the bulk tank stations in the petroleum trade, numbering 19,593 with 3.02 per cent of all wholesale sales. Several types less clearly defined as to functions performed, did a considerable share of total wholesale trade. For example, there were 16,696 manufacturers' wholesale outlets with 23.37 per cent of the total; 34,330 assemblers and coöperatives marketing agricultural products, with 7.11 per cent; and 551 chain-store warehouses with 2.62 per cent. In addition, there were 1,017 exporters and 2,337 importers with 2.73 per cent and 2.66 per cent, respectively, of all wholesale business. A number of newer and less significant types were represented with 2,925 establishments, doing a combined business of 1.7 per cent of the wholesale trade of the country.[7]

Among these newer types may be mentioned two which have been greatly overrated in the popular estimation of wholesalers in recent years. One is the cash-and-carry wholesaler who has adapted the familiar method of retailing to wholesale business. His customers, the retail merchants, call at his place of business, select their own merchandise, pay cash for it, and finally take it away in their own trucks. The "wagon distributor" is also a new development. Here we have the wholesaler combining the tasks of salesmen and truck drivers. The driver-salesmen call on the retail trade, take orders, and either make immediate delivery from stocks carried on the trucks, or take advance orders to be delivered on the next trip. Neither cash-and-carry wholesalers nor wagon distributors are particularly extensive as yet, the two together accounting for but 0.4 per cent of total wholesale trade.

Survival of the Fittest

On the stage thus set an intensely interesting drama is going on, in fact has been going on for the better part of a generation. The actors have changed from time to time but the struggle has continued. Powerful forces generated by economic developments have surged about the central figure in this conflict, the typical wholesaler. Long the dominant factor in the distribution of merchandise, as has been pointed out, he gradually came to accept his position as a "divine right," and has been slow to adjust himself to the irresistible changes taking place around him.

The roots of the strife are imbedded in the growth of large-scale production and the volume of products which it poured into the market. Manufacturers who once were only too glad to turn their products over

[7] *United States Summary of Wholesale Distribution, 1933.* Bureau of the Census, Government Printing Office.

to the wholesaler on his own terms began to find conditions very unsatisfactory. The marketing mechanism which had developed in the nineteenth century was as ill-adapted to the strains of twentieth century production as the wooden rails of early railroading would be to modern locomotives and rolling stock. In short, mass production cried for mass distribution, and the battle was on.[8]

Manufacturers found that they could control their markets and bring the wholesaler to terms by the use of advertising. By appealing to the consumer, demand was stimulated which was transmitted through the retailer to the wholesaler. The wholesaler was thus compelled to add many items which he did not care to handle, and often had to suffer a reduction in the margin of profit as well. In retaliation he frequently made but little effort to push the many competing lines. On the contrary, he often added his own private brands and stressed them in his sales efforts. Some manufacturers sent their own salesmen out to take orders from the retail stores and turned the orders over to the wholesalers for delivery. Wholesalers resented this intrusion into their field, especially when the manufacturer's salesmen took orders from retailers whose credit rating were not good. Such conditions naturally led to friction and even to open hostility.

The manufacturer was alert for a change in distribution channels. The wholesaler, fearful for his very existence, was on the defensive. Two lines of attack emerged. Certain manufacturers started an offensive on the right flank, attempting to cut off the wholesaler's source of supply by setting up their own wholesale branches and selling directly to retailers or consumers. At the same time, the position of the wholesaler was attacked from the left by retail chain organizations. Encouraged by manufacturers, they established wholesale warehouses, and carried competition directly to the wholesaler's door by taking over and themselves performing the wholesaling functions for their retail outlets.

How far this tendency to replace wholesalers by integrated divisions of manufacturing, retailing, or other businesses has progressed can be measured directly only for the year 1929. In that year the typical wholesale merchant operated 41.8 per cent of all wholesale establishments and accounted for 35.6 per cent of the total sales volume. The wholesale branches of manufacturers constituted 9.7 per cent of all wholesale establishments and handled 21.4 per cent of total sales. Least important of the three were chain-store warehouses with slightly more than 2 per cent of all wholesale establishments and 2.8 per cent of wholesale sales volume.[9]

[8] *Competitive Forces in the Wholesale Marketing of Prepared Food Product* contains a discussion of this point. Thesis by the author. Published by National Wholesale Grocers Association, November, 1929.

[9] *United States Summary of Wholesale Distribution, 1933.* Bureau of the Census, Government Printing Office.

The typical wholesaler thus remains the most important single type of wholesale outlet although he has undoubtedly lost much ground as a result of the competitive forces at work. If it be assumed that there was a time when a large measure, if not all, of the wholesale business was conducted by the independent wholesale merchant, he has assuredly declined in importance relatively if not absolutely.

There is some evidence that the decline has been relative rather than absolute, at least until very recently. The following tabulation gives estimates of the gross income of wholesale trading corporations based upon reports to the Commissioner of Internal Revenue in compliance with the income tax law. It also shows the number of reports (corporations) for the years 1918-1926.

TABLE I

GROSS INCOME FROM WHOLESALE TRADING CORPORATIONS AND NUMBER OF WHOLESALE TRADING CORPORATIONS FILING REPORTS

Year	Gross income[a] (million of dollars)	Year	Number of reports[b]
1917	11,165	1918	14,694
1918	11,373	1919	14,222
1925	21,915	1920	15,344
1926	22,123	1921	15,965
1927	18,830	1922	16,368
1928	18,877	1923	18,640
1929	18,220	1924	20,643
1930	15,095	1925	20,844
1931	10,791	1926	33,011

[a] Computed from *Statistics of Income*, U. S. Treasury Department. The total gross income from trading corporations is given in a number of sub-classifications. These have been regrouped into wholesale and retail trade on a basis as nearly comparable with the classifications used in the Census of Distribution as the nature of the data permitted. Estimates have been made where no breakdown was available. Published data not available for years 1919–1924 for gross income.

[b] The basis for classification was changed in 1927 so that the number of reports for recent years are not comparable with the earlier statistics.

It is noteworthy that the gross income increased by nearly 100 per cent between 1917 and 1926. Prices during the same period showed a net decline of nearly 15 per cent according to the index compiled by the federal Bureau of Labor. The trend in the number of reports between 1918 and 1926 is further evidence of an absolute increase in the business of wholesale traders. Since 1926 there has been a decline in the gross income of wholesale trading corporations, which brought the 1931 total to a point below that for 1917, a decline of over 51 per cent. Wholesale prices during this period dropped but 27 per cent. Since the years 1927-1929 showed little variation, it may be concluded that the subsequent drop was largely cyclical.[10]

[10] Perhaps it should be pointed out that only those corporations, the chief business of which is wholesaling, are classified as wholesalers in the *Statistics of Income*. Manufacturers or chains which engage in wholesaling as a part of their business are not included.

Additional data from the census of wholesaling permit further insight into the trends in competition within the wholesale field. The following table shows the years in which specified wholesale houses were established. The data are incomplete, since only those firms which were in business in 1929 have reported. How many more came into business and expired before 1929 is not known. Despite this limitation the data probably give a fair approximation of the trends in new establishments among the competing types.

TABLE II

WHOLESALE ESTABLISHMENTS AND DATES OF ORGANIZATION, UNITED STATES WHOLESALE TRADE, 1929[a]

Year established	Wholesale merchants		Manufacturing wholesale branches		Grocery chain warehouses	
	No. of establishments	Yearly average	No. of establishments	Yearly average	No. of establishments	Yearly average
Total	15,909	—	3,984	—	234	—
Prior to 1900	2,863	—	1,298	—	30	—
1900–13	3,257	233	1,184	85	40	3
1914–19	2,276	379	384	64	34	6
1920–24	3,368	674	445	89	55	11
1925	785	785	94	94	12	12
1926	669	669	79	79	8	8
1927	774	774	104	104	9	9
1928	990	990	144	144	35	35
1929	927	927	252	252	11	11

[a] Based upon *Wholesale Trade Series, Census of Distribution, 1932, 1933*. Census Bureau. Government Printing Office. The following trades are included—drug, dry goods, electrical groceries, hardware and radio sets. The last column is for the grocery trade only.

Out of a total of 15,909 wholesale merchants 2,863 were established prior to 1900. Between 1900 and 1913 there were 3,257 more established, or an average of 233 per year. The yearly average increased rapidly to 785 in 1925, dropped to 669 in 1926 and increased thereafter to a high point of 990 in 1928. There was a decrease again in 1929 to 927 which, however, was higher than any other year before 1928.

The rate at which the competing manufacturers' wholesale branches were established was less spectacular. The yearly average for the period 1900-1913 was 85. The war period saw a decline to 64 followed by an increase in the next five years to an average of 89, which was raised to 94 for the year 1925. A decline took place in 1926 followed by a steady increase to a maximum of 252 in 1929.

Similar statistics for the wholesale grocery trade led the author to the following conclusion:

> The statistics, dealing with manufacturers' sales branches, are particularly significant. The yearly average of (new) establishments shows a great increase in the number of branches starting out in the closing years of the

nineteenth and the opening years of the twentieth century. The yearly average for the period 1850-1874 was less than 3 (68 establishments in 25 years). Between 1875 and 1899 this average had increased to 20, and between 1900 and 1913 to 60.

The average of 60 new establishments per year between 1900 and 1913 needs a word of explanation. Many of these business units were probably not originally manufacturers' sales branches, since but 205 of the 844 established during those years have remained under manufacturers' ownership since at least 1913. There were 539 which have been under the same ownership only since 1929. . . . These facts have particular significance as indicative of increased activity on the part of manufacturers in establishing sales branches during this period.

These statistics for the wholesale grocery trade are in keeping with the well known fact that the era of the 90's and the early 1900's was characterized by a development of integrated industries or, to use a common expression, trusts (see A. S. Dewing, *Quarterly Journal of Economics*, November, 1921). The early confidence in this type of business organization was not supported by experience and there was a decline in its popularity until after the war. In the past decade the old idea has been taken up again. The emphasis in recent years has been on an increased integration of producing and marketing units.[11]

The remaining type of wholesale establishment given in the preceding table, the grocery chain warehouse, appears to have had two waves of development. An average of three each year was established between 1900-1913. This number doubled in the next five years and rose to 12 in 1925. A decline to 8 came in 1926, followed by an increase which reached the maximum of 35 in 1928, dropping back to 11 in 1929.

The foregoing analysis would seem to warrant the conclusion that the wholesaler has been subjected to rather severe competition since the opening of the century; competition which, at best, has prevented him from expanding as rapidly as might otherwise have been possible.

This competition from manufacturers' sales branches, on the one hand, and from chain-store warehouses on the other, has made the plight of the wholesaler appear so serious that many observers have readily predicted his early elimination. The fact that he not only survives but still constitutes the dominant type of wholesale distributor may indeed seem strange. How did he escape?

The answer rests upon two fundamental economic principles—*specialization* and *coöperation.* The wholesale merchant performs certain inescapable economic functions, chief among which is the provision, at strategic points, of reservoirs for the surplus merchandise requirements of the community. Surpluses are made necessary by the seasonal nature of production of foodstuffs combined with a continuous demand for them on the one hand, and a continuous production of many manufactured goods with a seasonal demand for them on the other. It is therefore

[11] N. H. Engle "Wholesale Distribution of Groceries and Food Specialties." *Census of Distribution,* Bureau of the Census, Government Printing Office, 1933.

essential that adequate storage facilities be provided. Other marketing functions performed by the wholesaler are: assembly of merchandise in carload lots; redistribution in smaller quantities with resulting reduction of transportation costs; determination of the needs of the community in advance so that the desired goods will always be available; and the extension of credit to retailers. The necessity for performing these essential marketing functions cannot be avoided by eliminating the wholesaler. Manufacturing establishments and chain stores which have sought to displace the wholesaler have quickly made this discovery.

Apart from the inertia arising from habits and trading customs, which would tend to perpetuate him, the wholesaler has survived because he is a *specialist in the performance of these functions.* As a specialist he is in a better position to reduce his costs and consequently to meet competition than are organizations whose primary interests lie in production or retailing. The outcome has been that relatively few manufacturers have had much success in short-circuiting the wholesaler. In many trades the wholesaler's costs have been lower than those of manufacturers' wholesale branches, indicating greater efficiency of specialization.[12] Chain-store systems on the other hand have been more successful and have reduced wholesaling costs to a point considerably below those of the typical wholesaler. This has been partly due to an elimination of some of the functions or more accurately a shifting of such functions to manufacturers. More largely, however, the lower costs have resulted from the efficiencies of integrated activities which have made possible a greater *internal specialization* in some of the wholesale functions. Where all the retail outlets are under central control it is possible to organize an efficient system of purchase and delivery of merchandise.

Theoretically of course, the wholesaler can reduce his costs through reorganization and curtailment of services to a point comparable with the chain systems. To some extent, cash-and-carry wholesaling frequently permits successful price competition.[13] Furthermore, the wholesaler can use the same coöperative methods as the chains. He can fight fire with fire. Wholesalers have found it possible to organize selected

[12] This has been especially true of the food trades and trades handling a large number of items with relatively small unit value. For example, in the confectionery trade, total operating expenses of wholesale merchants were 16.3 per cent of net sales as contrasted with 26.0 per cent for manufacturer's sales branches. In the drug trade the percentages were 14.1 and 19.7 per cent respectively, and in the grocery trade 9.3 and 13.8 per cent. Facts taken from *United States Census of Wholesale Distribution* (1929).

[13] In the grocery trade, for example, the *United States Census of Wholesale Distribution* shows total expenses for cash-and-carry wholesalers to be 5.3 per cent of net sales. (Compare with statistics in preceding footnote.) In the confectionery trade the ratio is 3.4 per cent and for cash-and-carry tobacco wholesalers it is as low as 3.4 per cent, which is less than half the ratio for wholesale merchants in that trade.

retail stores into coöperative chain groups, which preserve most of the time make possible greater specialization within the group, which is the chief advantage of the regular chain systems.

The extent of the wholesaler-sponsored "voluntary chain" development in recent years has indeed been more phenomenal than the growth of the chains themselves. In the grocery trade, for example, where this movement has had its greatest expansion, this group of contract wholesaler chains is estimated to number between 300 and 500, with approximately 50,000 affiliated retail stores. These figures may be compared with 1,500 regular food and grocery chains operating some 62,000 retail outlets. The comparison is striking in view of the limited number of years the movement has been under way as compared with the regular chains.[14]

Although the wholesaler has been fighting valiantly for his marketing inheritance he has, as we have seen, suffered sorely from inroads made by the new competition. Many of the old line distributors who were too old or too stubborn to change have fallen by the way. A younger group of alert and modern business men are entering the wholesale field better equipped to wage a successful warfare. There is considerable hope for them if they will but take advantage of their strategic position as specialists in performing certain essential economic functions.

Changes such as these constitute a continuous process within the wholesaling structure. They indicate that the economic forces of competition are slowly adjusting an older technic to newer conditions. They afford an example in the field of marketing of the same sort of revolutionary process that has been going on in other parts of our economic system. They illustrate, moreover, the necessity for making allowances in economic valuations for this large and dynamic part of our business structure.

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[14] See W. L. White, *Coöperative Retail Buying Associations;* V. H. Pelz, *The Voluntary Chains*, published by the American Institute of Food Distribution; Report of the Federal Trade Commission on *Coöperative Grocery Chains;* and section on voluntary chains in census monograph, "Wholesale Distribution of Grocery and Food Specialties" by the author.

THE BASIS OF ECONOMIC STATESMANSHIP

The failure of contemporary economic statesmanship, of which the "depression" has made us painfully aware, was inevitable. The material realities of our civilization have never been controlled by pecuniary policies. What is required to make this clear is a clearer perception than we have enjoyed hitherto of the essential continuity of price theory—its perennial indirection and speciousness—throughout the period of "capitalist" development. Thus it begins as a mediaeval abstraction and a technique for attacking burgher power by indirection. With burgher ascendency it appears with reversed effect as the dialectic of burgher ascendency. With the reversal of mercantilist policies the pecuniary logic is once more reversed, becoming the dialectic of "free competition." But the circumstances which alone brought about the reversal of mercantilist policy and the ascendency of *laissez-faire* theory have worked themselves out in a situation which at last requires the complete abandonment of the pecuniary illusion.

The past three years have witnessed a depression in economics as well as a depression in business. It might even be argued that economists have suffered more than business men since the business men have lost only their purses, whereas the economists have come perilously near to losing their good names. This deflation of paper values, like the decline of prices, has passed through a series of phases. The first might be described as a break in common stocks especially severe in those particular cases where over-valuation had proceeded farthest, such as the statistical demonstrations of the "permanence" of the "revaluation" of boom years, the descriptive studies of "wholesome expansion" in various industries now in bankruptcy and various countries now in default, or the analyses of the "essential soundness" of installment selling or the use of corporate surpluses as call money. The second phase might be said to resemble the decline of the bond market. As the depression advanced it developed among economists a confusion as to its causes and a contradiction of opposing cures much more damaging because much more general and fundamental than the deflation of various special studies. It is one thing to have been proved wrong in a prediction or even sadly superficial in analysis, but it is quite another to advocate sound money whatever the effect on prices as an "economic principle" only to find someone else advocating "restoring" the price level at whatever cost to sound currency with precisely the same appeal to "principle."

The third and latest phase is more serious still, and might be compared to a general paralysis of industry and collapse of credit. The threat now is to the basic figments of economic doctrine—to the principles themselves. In the opening pages of *The Economic Consequences of the Peace* Mr. Keynes drew an uncomfortably vivid picture of the extraordinary complacency which filled the years immediately preceding the war. This complacency extended even to scholars and was therefore in part intellectual. Indeed one of the most remarkable features of the epoch which has just closed is the sense of intellectual self-sufficiency with which it was suffused. This was the period, as Professor Bury pointed out in his his-

tory of *The Idea of Progress*, when the idea emerged that civilization is a steady climb "onward and upward." One of the academic forms which this belief assumed was the theory that whereas the development of the past was "genetic," a mere matter of growth, that of the future will be "telic," proceeding by conscious guidance toward known ends. Thus it became a commonplace among scholars and finally even among laymen that we "already know enough" to guide the destinies of civilization far more skillfully than they have ever been guided before, the only obstacle being the lamentable rigidity of social institutions, or as it was sometimes described, the pig-headed obstruction of time-serving politicians. Some of these illusions—in morals and politics, for example—failed to survive the war. Others, however, survived that ordeal and flowered with an exuberance that should have been alarming through the next decade, only to be cut down in the last stage of the depression.

Thus the last stage of the depression might be called that in which it ceased to be a depression and became the crisis of capitalist institutions; and the consternation it has spread among economists is due to the fact that their theories are quite inadequate to this eventuality. I do not propose to argue that the end of the capitalist world has come and that the economists like unwise virgins are about to be cast into outer darkness. We do not know how the present crisis is going to come out and shall not, very probably, for some time. But whatever the outcome, we are unpleasantly aware of our incapacity to "guide" it. As Mr. G. D. H. Cole has recently said,

> We need not say at this stage that Capitalism cannot or will not reconstruct itself, but it is impossible to avoid the conclusion, even from a preliminary survey of the situation, that this work of reconstruction has neither begun nor seriously entered into the minds of most of those who are at present in control of world policy.[1]

It has not seriously entered into the minds even of most students of world policy.

The reason for this crisis of the unlit lamp and the ungirt loin is not the "inertia" or "lag" of social institutions and therefore of social science as compared to the inspiring "telesis" of natural science. That is a part of the illusion of complacency; and our first act of penance should be to get rid of it. Our intellectual "principles" are inadequate to the fundamental revision of capitalist institutions because they are derived from capitalist institutions and indissociable from them. From first to last economic theory as we have known it—that is to say, price theory—has been a demonstration of the supposed efficacy of capitalist institutions to solve our problems for us. I do not mean to suggest that our price-logic has always been disingenuous. For the most part it has been trans-

[1] *A Guide Through World Chaos* (1932), p. 35.

parently and even naïvely sincere. But it has made a serious historical blunder, the blunder of supposing that destiny is guided by conviction, that material events follow the logic of economic demonstration. Economic thought and economic institutions have passed through a series of corresponding changes, and we have allowed this correspondence to convince us that the ideas have controlled the institutions.

The reverse is actually the case. As Mr. Lipson has said, "The change of outlook on which we pride ourselves has been largely the necessary consequence of a change of conditions."[2] Over a long period of time we have succeeded in convincing ourselves that we can control our material destinies by manipulating prices. We assume that the economic statesmanship of the past has actually done so, and therefore very naturally we suppose that this is what the economic statesmanship of the present should try to do. No one is succeeding just now—that is, no one is obtaining the credit for a success of circumstance—and therefore we are quite justifiably alarmed for the future of economic statesmanship. But I believe that no one does because no one can, and that no one can now for the same reason that no one ever has: because the material realities of our civilization never have been controlled by the conjury of pecuniary logic.

The Clouded Origins of Price Theory

What is required to make this clear is a clearer perception than we have enjoyed hitherto of the essential continuity of price theory during the whole period of capitalist development, and for that we have of course had to wait for time to give us perspective. It is no more to the discredit of mercantilist writers to have missed the continuity of their ideas with mediaeval price theory than to have failed to perceive the "simple and obvious system" which was to follow, and the same is true of *laissez-faire* economists. Each was very naturally intent upon the differences which distinguished his ideas from earlier ones, since it was the differences which demanded expression; and, if we are now able to perceive a continuity which is more important, from our point of view, than all the differences, that is an unearned increment of advantage which we derive along with various embarrassing disadvantages from the point of view of men who live at the end of an era. To us the era which is passing defines itself in terms of the institutions of the "price system" and the economics of price theory.

We need not concern ourselves here with the tangled and disputed causes of the origin of capitalism except to note that the development of "pecuniary relationships" coincided with the appearance of a burgher class whose power and pelf depended upon those relationships. This class

[2] *The Economic History of England* (1931), vol. iii, p. 6.

was outside the feudal order, an intrusion into the "middle" of the class structure of feudalism, and consequently it was enthusiastically disliked by the upper classes. But their dislike, strangely enough, was for the most part expressed indirectly. If it had not been, capitalism and perhaps even industrialism would not have developed. That is to say, if the burgher class had been stamped out and if the free cities had been razed, European history would certainly have been very different.

But this was not done. Instead, mediaeval society undertook to scotch the snake, not kill it, and even this was done indirectly by an attack not on the burgher class but on its activities. Such was the circumstance to which we owe the origin of price theory. Inhibition of the burgher class took the form of an inhibition of pecuniary power, and the inhibition of pecuniary power, expressed as it inevitably was in the abstraction so dear to the mediaeval mind, took the form of the theory of "just price."[3] Even at that early date business enterprise was recognized as "conspiracy in restraint of trade,"[4] and the intent of mediaeval economic doctrine was to proceed against it. Thus price theory emerged. The idea was to make customary—that is, pre-capitalist—price maintenance the basis for controlling such conspiracy: engrossing, forestalling, regrating, usury, and so on. This device scored a failure, the first failure of price theory to control business enterprise.

The reason for the failure is a historical commonplace. By the time business enterprise had assumed such proportions as to attract general attention it had already formed the alliance which was to insure its future. That is why the burgher class was not stamped out: by the time it had become a threat to feudalism it was already allied with various princes, secular and even ecclesiastical, who found its assistance indispensable in the struggle for feudal power. Machiavelli may have rejected the maxim of the day, *pecunia nervus belli*,[5] believing that soldiers obtained money more easily than money obtained soldiers; but princes nevertheless required money and compounded with burghers

[3] Mr. Tawney, I think, has rather led us astray at this point. He has been impelled by a sincere—and quite justified—respect for the religious point of view to think himself in terms of that point of view instead of interpreting it and especially its mediaeval expression in terms of the institutional situation of the time.

[4] It is a great mistake to regard this as a modern discovery. See, for example, Adam Smith, *Wealth of Nations* (Ed. Cannan), vol. i, p. 68: "We rarely hear . . . of the combinations of masters. . . . But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit, but constant and uniform combination. . . ." And p. 130: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

[5] Ehrenberg makes the interesting suggestion that he rejected it only because it was his temperament to reject all commonplaces. Certainly it has been widely held at all times. For an illuminating discussion of this point see his *Capital and Finance in the Age of the Renaissance*, Book i, Introduction, *passim*.

to get it. Part of the price they paid undoubtedly was the extraordinary moderation of the anti-capitalist crusade. So it appears that, viewed in the light of attending circumstances, price theory was at the outset highly disingenuous. In mediaeval as in modern times "reasonable price" was so interpreted as to give plenty of latitude to business enterprise.

The Merchants' Treasure by Foreign Trade

The story of this partnership between the sovereign and the burgher is a pathetic one from the point of view of the senior partner. It is the story of the emergence of imperial dynasties from the welter of feudal parochialism. To this point the procession was of course a triumphal one. But alas for the senior partner, they returned from the ride with the sovereign inside and the smile on the face of the burgher. Historians have been accustomed to emphasize the advantages which accrued to sovereignty from this partnership with business, since they are after all the historians of nations. But it is quite evident that the solid burghers took full advantage of their indispensability. While they were supplying the "sinews" of the wars out of which the modern nations emerged, they were also making insistent and successful demands. For one thing, they were engaged in the quiet accumulation of the legal safeguards and precedents by virtue of which property and contract—the basis of their strength—became the holy of holies of western civilization while legitimate succession was fading to a mere wraith of a power that once had been. They were also engaged in hammering out "sound" currency systems equally to the advantage of both partners, and the technique of indirect taxation whereby the burgher supports the sovereign and charges the costs to his customers.[6] Such developments as these expressed a general feeling rather than a closely articulated plan. The interest in sound money, the sanctification of property and contract, these might almost be described as capitalist instincts. No business man could fail to express them. All would feel the same about them and would share equally in the security which they would guarantee to the burgher class as a whole.

But not all the demands of the burghers were of this kind. In addition to securing the interest of all, different business interests were from the

[6] On this point James Bonar made an interesting remark in his *Philosophy and Political Economy* (1893), p. 59: "Modern Political Economy may be said to begin with the introduction of taxation as a means of supporting the State, in place of personal service, aids in kind, and revenues from crown property; and taxation begins with the absolute monarchy that superseded the feudal system." As genealogy this is dubious, but as character analysis it is rather significant. Perhaps indirect taxation—the system whereby the requirements of governments and the profits of business men are thrown in with the expenses of manufacture and the whole thing lumped together and presented to the public as "irreducible costs," so that the buyer hardly knows how much he is being mulcted by public and how much by private taxation—is the true inwardness of the capitalist system.

first concerned each and severally to secure advantages for themselves in person. Their manoeuver was simple. Each undertook to utilize governmental power to secure personal advantages just as the burgher class as a whole had secured its class advantage. Furthermore, each captain of industry in the making undertook to represent his personal advantage in the guise of national policy. The early centuries of the capitalist era are known among economists as the period of mercantilism because of the mass of economic writing it produced, practically all of it by merchants or by professional writers like Defoe, acting as ghost-writers for merchants. This literature is a Babel of confusion and cross purposes. Underneath the vehemently pious asseveration of national interest everyone is assiduously engaged in feathering his own nest.[7]

The arguments of these merchants were thus predestined to indirection. Hence they could hardly do otherwise than follow the masterly indirection of the mediaeval mind and assume the form of price theory. Economists whose own minds were saturated with price theory have naturally failed to appreciate this anomaly. To them price theory no doubt seems the inevitable form of any discussion of material advantage, but it certainly is not. The mercantilists might have spoken directly of the importance of wool in the European economy, or they might have defended colonial empire-building in terms of the white man's burden. Actually they did nothing of the sort. They argued their several cases in terms of prices, rents, and gold[8]—most especially gold. Their favorite idea was that a country could become rich and therefore strong by the increase of its stock of gold, and that the stock of gold must therefore be increased by an excess of exports over imports.[9]

As we have been told continually during the last century and a half, this is nonsense. What is most important, however, is that it always was nonsense. England did pretty well during the mercantilist period,

[7] This seems to have been what impressed Professor Viner most as a result of his careful examination of English mercantilist writing. "Pleas for special interests," he concluded, "whether open or disguised, constituted the bulk of the mercantilist literature. . . . The disinterested patriot or philosopher played a minor part in the development of mercantilist doctrine." "English Theories of Foreign Trade before Adam Smith," *Journal of Political Economy*, June-August, 1930, p. 453. Professor Ware also has recently called attention to the same speciousness in physiocratic price theory in his cogent article, "The Physiocrats: A Study in Economic Rationalization," *American Economic Review*, December, 1931.

[8] Professor Viner repeatedly calls attention to the speciousness of these arguments and suggests that they are explicable only as special pleading. *Op. cit., passim.*

[9] To an extent not generally appreciated, this argument raged about the East India Company which was charged by "interloping" merchants with causing a net loss of bullion and defended by its officers, who included the leading mercantilist writers. For a comprehensive review of this case, see Lipson, *op. cit.*, vol. ii, pp. 277 ff. Also Viner, *op. cit.*, pp. 452-3. Professor Cannan suggested that the dominating idea of mercantilism is not so much enunciation of the doctrine of a favorable balance of trade as the denial of any loss of bullion through the much-criticized trading companies. *A Review of Economic Theory* (1929), pp. 6 ff.

and therefore it has become the fashion for modern economists to soften somewhat the abruptness of Adam Smith's celebrated dismissal of mercantilist doctrine. Their argument is rather strange. If a man were to gain weight during a bout of fever, should that be taken as a qualified recommendation of the therapeutic value of fever? England did well, obviously, not as a result of mercantilist statesmanship, which "involved the pursuit of aims which were mutually contradictory,"[10] but because in the scuffle for national advantage which filled the eighteenth century her generals won their battles. Even the over-development of the export trade, since it happened to be in wool, was the most fortunate of fallacies, since the Industrial Revolution subsequently took place in textiles. But no mercantilist doctrine provided England's victories and no mercantilist prophet foresaw the Industrial Revolution. What saved England from the Balkanism of mercantilist beggar-your-neighbor policy was not the "partial truth" of utter fallacy, but circumstances.

The Shibboleth of Laissez Faire

With a change of circumstances mercantilism presently fell into desuetude. Its fallacies were exposed and its policies discredited. But even this involved no abandonment of price theory. On the contrary, the exposure and abandonment were accomplished only with the indispensable assistance of a new and "true" price theory so portentous in the completeness of its logical articulation that it has permeated western culture ever since. People who have never read a word of Adam Smith, or indeed of any other economist ancient or modern, repeat its shibboleths as a matter of course under the impression that what they are repeating is a truth sustained by the whole structure of modern thought and therefore no longer dependent upon the success of the demonstrations of Adam Smith or anybody else, just as people cite the formula "circumference equals diameter times pi" as a truth resting not upon the divine inspiration of *II Chronicles iv. 2* but upon the whole structure of modern science. The insight of economists into the fallacies of their predecessors has always been singularly keen, but their inveterate propensity to deal with them by promulgating another fallacy which is the perfect logical complement of the one just exposed is if anything still more singular. But what is most extraordinary in the case of Adam Smith is the extent to which his theory has obscured his purpose.

That purpose, which would be clearly apparent to any fresh reader of the full text[11] of *The Wealth of Nations*, was to expose and repudiate empire-building and all its works. "The great historical fact," says M. Halévy, who is perhaps our most acute interpreter of *laissez faire*

[10] Lipson, *op. cit.*, v. iii, p. 3.

[11] Those portions of the book which express its essential purpose are of course omitted from the standard abridgments.

economic doctrine, "of which Adam Smith's doctrine is the theoretical equivalent, is the American Revolution. This, in a sense by force, converted the English public to the new doctrine of commercial liberalism. . . ."[12] Few Americans are aware, for example, that Adam Smith was not only ready to extend parliamentary representation to the colonists but prepared to face with equanimity the eventual shifting of the capital of the British Commonwealth of Nations to North America.[13] This does not mean that Smith was a renegade. On the contrary, he was like his friend and admirer, Edmund Burke, a "disinterested patriot and philosopher" who regarded colonial empire as the bauble of adult infantilism. "To the undiscerning eye of giddy ambition," he said, "it naturally presents itself amid the confused scramble of politics and war as a very dazzling object to fight for."[14] The closing words of his celebrated book are a solemn warning to his country to avoid delusions of grandeur, to awake from dreams of empire, and to "endeavor to accommodate her future views and designs to the real mediocrity of her circumstances."

The designs which thus aroused the father of economics to such vehement antagonism were more than infantile, however; they were sinister. Such projects were "fit only for a nation of shopkeepers."[15]

> By such maxims as these, nations have been taught that their interest consisted in beggaring all their neighbors. Each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades, and to consider their gain as its own loss. Commerce, which ought naturally to be among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity. The capricious ambition of kings and ministers has not, during the present and the preceding century, been more fatal to the repose of Europe than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolizing spirit of merchants and manufacturers, who neither are nor ought to be, the rulers of mankind, though it cannot perhaps be corrected, may very easily be prevented from disturbing the tranquility of anybody but themselves.[16]

To this end Adam Smith devised his celebrated formulas. This theory which, as M. Halévy says, "is *preliminary* and no more than prelimin-

[12] *The Growth of Philosophical Radicalism* (1928), p. 106.

[13] *Wealth of Nations* (Ed. Cannan), vol. ii, p. 124: "Such has hitherto been the rapid progress of that country in wealth, population and improvement, that in the course of little more than a century, perhaps, the produce of American might exceed that of British taxation. The seat of the empire would then naturally remove itself to that part of the empire which contributed most to the general defence and support of the whole."

[14] *Ibid.*, vol. ii, p. 127.

[15] *Ibid.*, vol. ii, p. 114.

[16] *Ibid.*, vol. i, pp. 457-8.

ary"[17] to his real purpose, was of course drawn on the lines which the specious price theory of the mercantilists had already laid down. The mercantilists had devised the theory of a favorable balance of trade and enunciated the policy of beggar-your-neighbor; therefore Adam Smith made "the principle of identity of interests" the basis of his theory,[18] and devised the theory of free competition and the equation of normal price and cost as an automatic mechanism which, if only let alone, would insure both to nations and to individuals the nearest approach to absolute justice of which the nature of human affairs can ever admit.

Adam Smith did not create this myth. No man ever creates a myth. Circumstances did that. Adam Smith only supplied the ideas from which it grew, just as primitive poets unwittingly supply the ideas that become the rigid and binding folklore of a people. Adam Smith pointed out various really simple truths: that if two groups of men specialize in producing two different things, both groups will profit by exchanging products; that the further this specialization goes the greater will be the profit all round; that different regions and different people have different natural aptitudes; and that if all follow their several specialties without let or hindrance, seeking only the advantage accruing to all from free exchange, each will be "led by an invisible hand to promote an end which was no part of his intention." Thus peace, riches and security might result simply from everyone's minding his own business.

Now in all this a certain truth is of course perceptible, just as some truth is perceptible to the sympathetic eye in every mythology. It is true that specialization pays and that an exchange of specialties pays both parties, and it is also true that an arbitrary interference with the exchange of specialties is a nuisance all round and that the arbitrary duplication of specialties is a doubly costly nuisance. Mercantilism was a nuisance, as Adam Smith amply demonstrated; and the present array of punitive reparations, isolationist tariff barriers and uncollectible debts is just such a nuisance. To this point the modern advocates of peace and prosperity by a return to "natural liberty" are justified. If we would have peace, they say, we should cancel the debts, sweep away the tariff barriers and let trade flow freely as of yore; and if we want order and relief from the fever of revolution, we should enforce the anti-trust laws, sweep away monopoly, and let free competition restore the world to balance. Agreeing fully with Adam Smith about "the violence and injustice of the rulers" as well as "the mean rapacity and monopolising spirit of merchants and manufacturers," they still believe as he did that if the partnership between governmental violence and capitalist

[17] *Op. cit.*, pp. 266-7. Halévy's italics. He goes on to point out that *laissez-faire* price theory became an end in itself only with Ricardo.

[18] *Ibid.*, vol. i, p. 490 and *passim*.

rapacity could be dissolved, something like free competition would be restored.

The idea seems to be that when thieves fall out honest men get their due. Professor Henry Clay, for instance, describes politicians and industrialists as being what an American would call rival gangsters. *Laissez faire,* he says, really means dividing them "into two independent camps—the captains of industry in one and the politicians and bureaucrats in the other" so that "they balance each other and keep each other in order" while "the more humble people who want only to mind their own business and manage their own lives have a chance of living in peace."[19] The check-and-balance system of classical *laissez faire* is not a mutual slaughter of bootleggers and hijackers. Under the simple and obvious system Adam Smith expected competition to demobilize monopoly. There were to be no more captains of industry. Moreover the system of natural liberty made no provision for bureaucrats. The best government was to be the least government not because Wall Street knows best but because where there are no bandits no policemen are required. *Laissez faire* was not conceived as a precarious balance of sinister forces to be maintained by sleight-of-hand of peace pacts and anti-trust suits. It proposed to put an end to the rule of force simply by proving that there is nothing to fight about.

The Persistence of the Myth of Laissez Faire

Strangely enough, the failure of *laissez faire* to do any such thing is the chief cause of its persistence today. What deters most economists from joining Professor Clay's neo-Manchestrian movement back to the eighteenth century is their strong sense of a change of material circumstances. A simple return to *laissez faire* is generally held to be impossible owing to this change of circumstances. Large-scale machinery has completely altered the basis of competition. Self interest, the guiding hand upon which Adam Smith relied so trustingly to lead us all willy nilly to utopia, is itself guided by the physical conditions of the time. In the eighteenth century the technology of manufacture may be said to have favored competition. The woolen manufacturers who, according to Adam Smith, had been " more successful than any other class of workmen in persuading the legislature that the prosperity of the nation depended upon the success and extension of their particular business,"[20] had no natural monopoly, as we call it. Their advantage was not derived from the physical concentration of either the materials or the machinery of their trade. As Adam Smith perceived, it depended largely on the favor of their old partner, the sovereign power of the state.

[19] *The World's Economic Crisis* (1932), pp. 146-7.
[20] *Op. cit.,* vol. ii, p. 146.

They have not only obtained a monopoly against the consumers by an absolute prohibition of importing woollen cloths from any foreign country, but they have likewise obtained another monopoly against the sheep farmers and growers of wool by a similar prohibition of the exportation of live sheep and wool.[21]

Hence his insistence that a removal of trade barriers would place woolen manufacturers on a level with the rest of the community. That is no longer true. Although many special privileges still exist protected by tariff barriers and the like, today they are not so much the cause as the result of monopoly.

The real basis of monopoly today is giant machinery, the might of mass production, by virtue of which trusts and mergers have become so inevitable as to be beyond the power of any sovereign state to prevent. So great is the advantage of large-scale machinery that we may truthfully say that the machinery itself compels us to centralize control. A railway system, or a network of high-tension power lines, needs to be managed as a unit. This is why we regard the demands of great industrialists as utterly disingenuous. They propose that governments shall cease their attempts at regulation and restriction, stop meddling with business, and return to the balmy days of *laissez faire,*

> When courts and senates did not itch
> To interfere in matters which
> They do not understand.

Are railways and power companies, steel and oil going to conjure up a utopia of free and equal competition simply as an expression of gratitude for the repeal of the anti-trust laws? Or should we all prepare to lift our voices in hymns of praise for the beautiful system of natural liberty in which farmers and laborers and consumers shall be free to compete with each other while manufacturers are equally free to combine against the lot? This is cynicism, but it is a realistic cynicism. If *laissez faire* has a cynical sound today, that is because it has in fact very largely come to mean the freedom of consumers to pay what the traffic will bear, the freedom of farmers to bankrupt each other, the freedom of women to work in factories at night and the freedom of little children to use their own judgment in deciding whether they shall go to college or go to work in the mill. The only suitable name for such economic peace is *pax capitalis.*

Economists are not ordinarily so simple as to use *laissez faire* as a cloak for that sort of thing. They recognize that machine production has altered the form of economic struggle, and consequently they insist that what we require now is a suitable modification of the "fundamental truths" to compensate for the superficial changes in the material situa-

[21] *Ibid.,* vol. ii, p. 146.

tion. For, be it noted, the very change of circumstance which has made *laissez faire* inapplicable has saved it from the test of use. The fact that it no longer works has become, by some strange logic, the clearest proof of its former efficacy.

Thus the recent generations of economists have consisted almost exclusively of revisionists. I confess that I am a little dismayed to see Veblen in this group. Apparently he too regarded *laissez faire* as a system which had really worked, once upon a time; and because my disposition is to respect anything that Veblen wrote, I propose to examine his reasons. He gives three reasons for this supposition. One is that the system of property rights once "served to shelter industrious and economical persons from hardship and indignity at the hands of their betters."[22] Another is that "at that period the workman was the main factor in industry," while capital "was then a secondary factor and, notoriously, subsidiary to the immaterial equipment of skill, dexterity and judgment embodied in the person of the craftsman."[23] And the third is that capital did not then "enable its owner to appropriate the usufruct of the current industrial arts."[24] But of what period is he speaking? There was once a time, to be sure, when the rights of property stood as a bulwark against the arbitrary presumptions of feudal lords, but that was before the day of *laissez faire* by a matter of centuries and the persons thus protected from indignity at the hands of their betters were the burghers, not the proletariat. The other two points seem to refer to the eighteenth century, but for them we have the directly contrary opinion of Adam Smith. He did not regard the industry of the time as an unmixed blessing to the common man. "Though in their disputes with the workmen," he says in a celebrated passage, "masters must generally have the advantage, there is, however, a certain rate below which it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labour. A man must live by his work, and his wages must at least be sufficient to maintain him."[25] Veblen describes his last point, concerning the usufruct of the industrial arts by capital, as gleaned from modern ethnology. He implies not only that the phenomenon was absent from the eighteenth-century industrial scene, but that it was unknown to the eighteenth-century mind. But listen to Adam Smith: "Our master manufacturers think it reasonable that they themselves should have the monopoly of the ingenuity of all their countrymen."[26]

[22] *The Nature of Peace* (1917), p. 317.
[23] *Ibid.*, p. 319.
[24] *Ibid.*, p. 321.
[25] *Op. cit.*, vol. i, p. 69.
[26] *Ibid.*, vol. ii, p. 159.

Natural Liberty or Industrial Priority?

Nothing could be further from the truth than the supposition that it was the philosophy of *laissez faire* which made the Industrial Revolution possible and therefore enabled England to stand out for a century and a half as the industrial leader of the world. The precise contrary is true: the philosophy of *laissez faire* has obsessed the world because it was the philosophy of the world's industrial leader. The real secret of England's leadership is pretty obvious, at least to Englishmen. About a year ago, for example, Sir William Beveridge, director of the London School of Economics, made this diagnosis:

We are the oldest industrial country. . . . During the nineteenth century, working our coal and iron before others did, we got rich easily, and we thought that this ease would last forever. An occasional economist, like Jevons, might tell us the truth and warn us to look ahead; but those warnings fell largely on deaf ears. As a people we did not realize that we were richer than other peoples, not because we were cleverer or better furnished with natural resources, but through the accident of having started first.[27]

The philosophy of *laissez faire*—the erection of Adam Smith's formulas into a national religion—is a product of that accident. England did not cleave to free trade and free enterprise through the last hundred fifty years because she was wiser and more virtuous than other countries, nor did other countries cling to protection because they were so stupid as not to have passed beyond mercantilism or so naughty as to be indifferent to the ideal of liberty. England adopted free trade because it paid her to do so; and what made it pay was circumstances—unique circumstances—which made nineteenth-century England utterly different from the England of mercantilism and the England of the present. Neither Adam Smith nor anyone else had the slightest foreknowledge of this extraordinary situation. The philosophy of *laissez faire,* like the flowers that bloom in the spring, had nothing to do with the case. There is no need to question the sincerity of all the people who have believed in the efficacy of this doctrine. It was not a product of the famous hypocrisy of "perfidious Albion." It was simply a myth.

Times have changed and England has discovered that free trade—the simple and obvious system—no longer pays. The reason is a curious one. What machine production has altered most profoundly and disastrously is the relations between sovereign states. In his alluring prospectus of the advantages of free exchange Adam Smith brought all his logic and all his passion to the defense of national specialization. For the French to lead the world in the production of wine—an industry in which the world had for centuries past recognized their clear superiority—was, he insisted, just as great an advantage to Englishmen as

[27] *The World's Economic Crisis* (1932), pp. 155-6.

to Frenchmen; and in a famous passage[28] he denounced the tariff barriers which, though they might make it financially profitable to some of his fellow Scotsmen to grow grapes in cold frames even in Glasgow, could never make wine production in Scotland anything but an expensive folly. To his mind England's industrial superiority was a precisely similar case.

But he was wrong: it was not. If only looms and spindles were concerned, England might perhaps have remained always as she was in 1776 the machine-shop of the world. But unlike wine, machines are a vital concern of national sovereignty. The Industrial Revolution was also a military and naval revolution: the second military revolution of modern times. The first occurred at the end of the Middle Ages and was an indispensable part of the social upheaval which threw off feudalism and established the burgher nations as the sovereign powers of the modern world. Cannon made castles useless; muskets abolished knighthood; and small arms gave the common traveller and householder a weapon with which to stamp out banditry and achieve the general security of life and property which is a unique feature of bourgeois civilization.[29] This should perhaps be called the bourgeois period of military strategy. Arms such as these are no more dependent on the industrial arts than any other. Very likely the Hittite empire resulted from the advantage which an iron-using people enjoyed over other cultures still limited to bronze. What is peculiar about the industrial arts of early modern times is this: they were the arts of town men. Feudal castles were not equipped for cannon-casting. The men who built the ships by virtue of which Britannia came to rule the waves were the merchants whose public-spirited activities were so highly praised by mercantilist writers and so solicitously favored by bourgeois governments. At this time the important effect of the relation between industry and war was the advantage of the burgher class over all other classes in European society and the advantage of European nations generally over the non-manufacturing peoples of the world.

The industrial period of military strategy may be said to begin with the substitution of steel for wood in shipbuilding and the appearance of the modern battleship. From this moment military strength, that is to say sovereign power, depends not upon the arts of the gunsmith but upon the magnitude and balanced integration of the whole industrial system. The difference in strength between the first-rate powers and

[28] *Op. cit.*, vol. i, p. 423.

[29] At the end of his survey of the expenses of national defense Adam Smith made a curious remark to the effect that the invention of fire-arms had turned the tables on "the poor and barbarous nations" which hitherto had battened on "the rich and opulent." *Ibid.*, vol. II, p. 202: "The invention of fire-arms, an invention which at first sight appears so pernicious, is certainly favourable both to the permanency and to the extension of civilization."

others is greater at this moment than it has ever been in the entire history of human life and struggle on this planet, and it depends wholly upon the command of a complete industrial plant capable of fabricating all the complicated contrivances that are required to sustain a prolonged military effort under modern conditions. An Asiatic nation which orders a dreadnought or a fleet of planes manufactured in England or America may get the best, but it is not a first-rate power. No power is or can be which is not equipped to create out of its own substance the essential sinews of national defense.

On this account every nation which proposes to rank as a first-rate power must be an industrial nation. This is a truism. Everybody knows it. We need not attempt to read the minds of statesmen dead and gone to see that everybody has always known it.[30] The manifest destiny of the industrial powers is written clearly in their history. Obviously those nations which are now the dominant powers in the world have been struggling for years not so much to expand their borders or even to get rich as to build modern machinery and to secure for themselves the essential raw materials for building that machinery.

This is the condition for which economic theory has failed to provide. When machine specialization began in England it was obviously to the advantage of Englishmen and their customers to exchange their machine-made products freely for the foodstuffs and raw materials of the rest of the world. But that advantage can continue only in so far as variety of specialization continues, that is to say only as long as England's customers specialize in non-industrial pursuits. But with the advance of the mechanical arts of peace and war it begins to be perfectly apparent that a nation specializes in non-industrial pursuits at the peril of its life. Consequently every nation in the world has had the strongest motive of which a nation is capable to leave off importing manufactured goods and build its own machine-shops. Not every nation has done this, but every nation has tried; and the successful ones today are the ones which have succeeded.

The result of this process has been a period of frenzied, hysterical, competitive, industrial construction; and as the years have advanced this has led to war. Each nation has felt itself surrounded by an iron ring: the machines of its potential enemies. We call this economic war and we talk of trade balances and foreign markets. But it has never been a struggle primarily to make money. Modern nations have not been attempting to beggar each other, as the French and English did so

[30] How far it is from being a discovery of recent years is indicated by the argument for fostering a native iron industry quoted by Lipson, *op. cit.*, vol. iii, p. 2, from Yarranton, *England's Improvement* (1677), p. 63: "If there should be occasion for great quantities of guns and bullets and other sorts of iron commodities for a present unexpected war, and the Sound happen to be locked up and so prevent iron coming to us, truly we should then be in a fine case!"

merrily in the mercantilist period, by attempting to rob each other of wine or wool or gold. It has been a struggle for coal and steel and oil: competitive industrialization.

What is ailing is not prices or profits, money or exchange. They are only symptoms. The disease is machine industry—or rather our total lack of any basis in past tradition or present statesmanship for the regulation of machine industry. Underneath the blandly reassuring surface of specious theories, our sole compelling purpose has been not to organize the mechanical resources of the world according to any pattern however crude but to prevent other people from organizing them, to smash their machinery, and to utilize our own primarily for smashing purposes. Thus we are at last obliged to realize most reluctantly and tardily—perhaps even too late—that we owe both the war and the depression to the same unregulated forces. As Mr. Cole says, "Even if there had been no World War, there were in existence in 1914 world forces threatening a serious dissolution of the established harmony of the nineteenth-century industrial order. Perhaps that was why there was a war."[31] Which is only to say that the "established harmony" of the nineteenth century was itself an illusion.

Such an admission may seem humiliating in view of our pretensions in the past; but in view of the present condition of the world there may be some compensating comfort in the reflection that the present world chaos is not due to any flaw in our calculations since we have never made any calculations. We have never faced even the most elementary decisions. The economic organization of society, so our textbooks say, exists to satisfy the material needs of man. What needs? Of what men? We have never decided. All our effort, all our really extraordinary intellectual ingenuity has been devoted to convincing ourselves that we shall never have to decide.

This does not necessarily mean that we cannot do so. It may be that in time to come the period which has just closed—the period of business enterprise and price theory—will have shrunk to the proportions of a mere transition episode. Pre-capitalist economy will then perhaps be described as "natural economy" characterized by a direct relation for most people between their own physical activities and the immediate satisfaction of their material requirements. The contrast in terms of which all this may be viewed will perhaps be some sort of machine economy in which almost no one will consume directly what he himself produces. That economy will have been made possible—one hopes, since otherwise it will not be possible—by some scheme for guiding this highly specialized productive mechanism so as to get the most out of it and for distributing the product so as to keep the whole system going. It will

[31] *Op. cit.*, p. 39.

doubtless be a prodigiously complicated scheme such as one can scarcely imagine now, and when it has come into existence the simplicity or, as it may then seem, the emptiness of life in a natural economy when men still devoured the fruit of their own labor, like the animals, may seem to the denizens of that social order unimaginably primitive. But strangest of all to them, perhaps, will be the transition era when, although machine specialization was already on the cards, the only principle of organization which had yet emerged was the singular belief that in a general squabble for advantage all would somehow be for the best if only people squabbled hard enough. For a spell this preposterous notion actually passed for statesmanship. But since with the rapid growth of specialized production the squabble soon assumed the proportions of a holocaust, it of course had to be abandoned; and it was under the stimulus of this impossible situation that the first dim outlines of the present system began to appear about the middle of the twentieth century.

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SOCIAL ASPECTS OF COMMERCIAL BANKING THEORY

Interest has been focussed on sound banking principles as a result of the large number of bank failures in recent years. Sound banking from the banking standpoint may not be in the social interest. Orthodox commercial banking theory advocated the self-liquidating commercial loan chiefly because of its short maturity. The development of security markets led commercial banks to invest in bonds and extend security loans, which was not objectionable from the banking viewpoint. Banks create deposit currency through bond purchases and the expansion of security loans not based on capital funds or savings deposits. Deposit currency expansion of this sort is undesirable because (a) it gives rise to investment inflation, (b) investment inflation cannot be readily controlled, and (c) the existence of investment inflation interferes with the proper control of commercial credit expansion. Assuming central banking control to have been ineffective and inflation to exist, deflation becomes necessary. A deflation of commercial bank credit, however, has fewer social ill effects than a deflation of investment credit. Practical reform to insure the prevention of investment inflation involves (a) a more complete legal and actual differentiation between demand and time deposits than now exists, (b) segregation of assets of savings departments in commercial banks, and (c) a restriction of assets of the commercial departments to self-liquidating, working-capital loans and reserves. Some alteration of central banking credit policy is also indicated.

The disastrous banking emergency which became acute in the closing months of 1930 and continued with increasing intensity throughout 1931[1] served to focus attention on principles of sound commercial banking to an extent which would not have been dreamed of in the palmy days of 1928 and 1929. The marked desire for liquidity of commercial banking assets which has received such wide comment in recent years is merely a natural consequence of widespread withdrawals of deposits and may easily be forgotten with a return to more normal business conditions. Current thought on the question, moreover, does not attack the heart of the problem of proper commercial banking policy, since it is concerned almost entirely with the safety of the individual banker rather than with the effects of banking policy on the economic and social system as a whole.

It is intended to belittle neither the importance of safe banking by individual institutions nor the necessity of maintaining a liquid position to prevent loss to depositors. Safety of operation, since it is a prerequisite to solvency, is no doubt the most significant banking aspect of commercial banking policy. Nevertheless, a well-rounded theory of commercial banking cannot stop with this, but must include as well an analysis of the social aspects of the problem, which are of large general importance.

It is possible that the application of principles which may lead the individual commercial banker to conduct his business with a high degree of safety may not best serve the interests of the community at large. On the other hand, it is not conceivable that the conduct of a commercial

[1] Between November 30, 1930, and January 1, 1932, 2,634 banks with deposits of $2,126,603,000 suspended. See *Annual Report of the Federal Reserve Board, 1930*, p. 132, and *Federal Reserve Bulletin*, January, 1932, p. 75.

banking business in the best interests of the economic system should not be safe, since safety is clearly essential to those interests. The purpose of the present paper is to examine commercial banking theory from both the banking and the social viewpoints and to attempt to discover those principles which, if followed, would be of benefit to the individual banker and to the economic system as well.

I

The banking aspects of commercial banking theory have been treated thoroughly in the textbook literature of the subject and need merely be summarized here. The commercial bank accepts on deposit the temporary surplus funds of business enterprises, governmental units, individuals, etc., and then lends these funds to borrowers or invests them in income-bearing securities. All of the deposits cannot be thus utilized, however. While the pooling of deposits by the banks of the system permits the lending or investment of a large portion of these funds—withdrawals by certain depositors being offset in large measure by deposits of others—the individual banker can never be sure that deposits and withdrawals on any given day or during any particular period will exactly offset each other. Accordingly, a certain proportion of assets must be held in the form of a reserve to enable the bank to meet any probable excess of withdrawals over deposits.[2] The remainder of the assets may then be held in the form of loans and investments.[3]

Theoretically, the reserve of the commercial banks is supposed to be adequate to meet both expected and unusual demands for funds from depositors. This statement, however, is subject to some qualification. The reserve, in itself, is not sufficient for this purpose (barring the case where so large a reserve is maintained that the bank could not do a profitable business) unless the other assets are liquid—*i.e.*, unless they can be turned into reserve funds without undue delay and loss. The reason for this is apparent. Since the bank's deposits represent *temporary* surplus funds of the community, they are largely repayable on demand, usually by check; and, even in spite of the tendency for withdrawals to be offset by other deposits, it is not safe for the individual bank to operate

[2] No attempt is made at this point to determine whether the loans of a commercial bank are limited by its deposits or *vice versa*. In general it may be concluded that for the individual bank, deposits limit lending activities, while for the system of banks, deposits are a result of lending and investment activities. For detailed treatments of this question, see C. A. Phillips, *Bank Credit*, ch. 3; R. G. Rodkey, *The Banking Process*, ch. 15; F. A. Bradford, *Banking*, ch. 11; and the references there cited.

[3] For the purposes of this discussion, no account is taken of offsetting assets such as "customers' liability a/c acceptances" and the like, nor of that proportion of the assets (including building and equipment, stock in the federal reserve bank, and certain investment securities) which may properly be considered as representing the disposition in the business of the bank's capital funds.

with demand liabilities on the one hand and any large amount of slow, non-liquid assets on the other.[4] In fact, it is the demand nature of the commercial bank's liabilities which is chiefly responsible for the insistence on the maintenance of liquid assets in expositions of commercial banking principles.

In earlier treatises on commercial banking it was common to advocate the self-liquidating loan as the only really sound type of investment for commercial or demand deposits. Such paper, it was pointed out, commonly is of short maturity. Moreover, the bank, by properly arranging the maturity dates of its customers' and open market paper, could insure a steady flow of funds into its reserve as loans were repaid. If, then, at any time, the bank wished to strengthen its reserve position, it could easily do so by the comparatively simple process of not granting new loans as those outstanding matured.

The stress which was thus placed on the self-liquidating loan, as opposed to investment paper, was perhaps due in part to the unsalability of the latter. However that may be, as the market for bonds of high grade improved and widened, commercial banks began to invest in such securities, as well as to make loans secured by marketable stocks and bonds, on the basis of their demand deposits. This practice was upheld on the ground that marketable securities were often more liquid than customers' self-liquidating paper, since funds could be obtained at once through the sale of the securities, while customers' paper, having no market, could not be realized upon until maturity.

The more orthodox banking theorists still objected to the diversion of commercial funds into investment channels on the ground that the liquidity of bonds and investment loans depended upon the marketability of the securities and that, in times of emergency, when all banks were trying to liquidate at once, such securities could be sold, if at all, only at such heavy losses as to make the liquidation impracticable. As opposed to this view, it was maintained that, in times of crisis, no paper is liquid and that the position of the orthodox theorists was hence untenable.

As frequently happens, something is to be said on both sides. Many a country banker in the United States who, in the years just prior to 1930, found his customers' loans pretty solidly frozen, no doubt wished that he had a large proportion of his funds invested in call loans and United States securities. He would have been able to liquidate these in his hour of need without substantial loss, while liquidation of customers' paper was impossible. On the other hand, when the bond market broke under selling pressure late in 1931, the bank with a portfolio well

[4] It is to be understood that the commercial bank is here treated functionally, not as the institutions which are commonly called commercial banks but also do a savings and trust—as well as other types of—business.

stocked with sound commercial paper (there were few such) would certainly have been in a superior position to the bank with large holdings of high-grade bonds.

Leaving out of consideration for the moment the existence of the federal reserve banks and the desirability of possessing eligible paper as a basis for rediscounting, it may be fairly concluded that, from the banking viewpoint, high-grade bonds with a wide and active market form a justifiable investment for at least a portion of the funds of commercial banks. In all except the most extreme emergencies it is possible to liquidate such bonds without exceptionally heavy losses. The same may be said for call and short-term loans secured by stocks and bonds.[5] The commercial bank may also augment its reserve ratio more quickly through the sale of bonds or the reduction of call loans than through the liquidation of customers' paper. Customers' commercial paper, on the other hand, has certain advantages which investment paper lacks.[6] Assuming the loans to customers to have been soundly granted,[7] they will almost certainly be paid in full within a comparatively short time, even in a period of crisis. The reason for this is that the proceeds of such loans have been used in large part to buy or manufacture goods for sale. It is true that forced liquidation of working-capital loans in a period of crisis or recession may throw the borrowers into bankruptcy and bring losses to the banks. If the borrowers are given a renewal or two, however, in order to enable them to dispose of their inventories in orderly fashion, the bank is almost certain to be repaid in full. The loss, in this case, falls on the borrower, not the bank, and the fact that inventories must necessarily be reduced by borrowers within a comparatively short period means that the bank will not have long to wait, six months perhaps, before its loans are repaid.

This may be summed up by stating that the self-liquidating loan depends for its repayment in full upon the soundness of the loan, while the amount obtained from the liquidation of investment securities held by the banks depends upon the state of the market for those securities at the time of liquidation, or, in the case of security loans, upon the ability of the individual bank to shift the loans to some other bank in the system. Since, in times of emergency, practically all banks will

[5] Call loans as a body were not liquid in October, 1929. The action of the federal reserve which permitted the New York banks to take over these loans in large volume gave them an appearance of liquidity which was quite deceptive. A part of the decrease in call loans is to be accounted for by the shifting of borrowers to time loans at their own banks and does not represent any real liquidation.

[6] The same advantages apply, in even greater degree, to open market commercial paper and bankers' acceptances.

[7] One major reason why so many small country banks have experienced difficulties with customers' paper of the alleged self-liquidating type is that the loans have been granted without proper investigation and analysis of the borrowers' credit position and hence have proved unsound.

be trying to liquidate their securities at the same time, the chances that the securities will depreciate are excellent. A working-capital loan, on the other hand, if soundly granted, will be repaid in full, although several months may elapse before repayment is realized. From the banking viewpoint, the advantage of the marketable security as a bank investment is the speed with which it may be liquidated, while the advantage of the sound working capital loan is the freedom from loss through depreciation. Call loans are subject to such depreciation only in the event that the liquidating banks are unable to shift these loans to other banks in the system.

With respect to security purchases, commercial banks, in actual practice, have considered high-grade bonds as a legitimate investment. In times of business expansion such holdings have been liquidated to the extent necessary to meet the demands of commercial borrowers, but in periods of depression surplus funds have been invested in this type of security. In fact, a decrease in loans and discounts and an increase in investments is typical of depression periods. This procedure has generally been considered perfectly proper, and, from the banking standpoint, there is no reason why this should not be so.

II

In order to appraise the desirability of traditional commercial banking practice from the social viewpoint, it will be necessary to review briefly certain other aspects of commercial banking theory. The commercial banks are generally credited with the creation of business or commercial deposits, which constitute the bulk of the deposits subject to check, through their lending operations. As loans are granted, the deposit accounts of the borrowers are credited, as a general thing, with the proceeds of the loans. These deposit credits are shortly checked against by the borrowers, and thus disappear; but the recipients of the checks deposit them in their banks with the result that deposits, equal to the approximate amount of the loans granted, remain in existence in the banking system. The deposit credit resulting from a given loan may be transferred from one account to another, but it is not extinguished until the loan that called it into existence is repaid. Under these conditions, the banks of the system may expand their loans and deposits to the limits fixed by the reserves at their disposal. That is, if the banks generally keep a reserve of 10 per cent of their deposits, the loans and deposits of the bank will normally be some ten times the total of reserves held.[8]

[8] For more complete analyses, see C. A. Phillips, *Bank Credit*, ch. 3, and R. G. Hawtrey, *Currency and Credit* (3rd ed.), ch. 13. See also a new treatment of the problem, J. W. Angell and K. F. Ficek, "The Expansion of Bank Credit, I," *Jour. of Pol. Econ.*, XLI, 1-32.

The foregoing line of analysis assumes, of course, that there is a steady demand for commercial loans on the part of business enterprises. As certain loans mature and are paid, the banks must be able to grant other loans of similar amount to take their place or reserves will rise above the percentage on which the banks normally operate. Assuming the banks to grant nothing but commercial loans, a reduction in the demand for such loans on the part of customers would cause the banks to hold excess reserves. To illustrate, consider the following examples:

A

Loans and discounts	$900,000,000		
Reserves	100,000,000	Deposits	$1,000,000,000

Suppose now, that loans and discounts are reduced by $400,000,000, the borrowers drawing checks against their deposit accounts in favor of their banks, and that no new loans are granted to take the place of those which have been repaid. The combined balance sheet for the banking system would show the following changes:

B

Loans and discounts	$500,000,000		
Reserves	100,000,000	Deposits	$600,000,000

The ratio of reserves to deposits has been increased from 10 to 16.67, and the banks are in the possession of $40,000,000 of excess reserves, which could support an expansion of loans and deposits of $400,000,000 in the banking system.

In a system in which the banks made only commercial loans we should expect results of the sort just pictured in a period of declining business activity. In fact, there might be a considerable augmentation in the *amount* of reserves as hand-to-hand money previously in circulation found its way back to the banks as a result of lessened employment, smaller payrolls, lower prices, etc. The banks would thus find themselves in possession of large excess reserves in periods of business depression and would be in an extremely liquid position, ready to meet any demands for sound commercial accommodation arising from a revival of business activity.

As a matter of practice, as already indicated, the commercial banks have not followed this procedure. Being profit-making institutions, they have not been content to pile up surplus reserves in periods of depression when it was possible to invest these funds in long-term, income-bearing securities. A glance at the accompanying chart, showing individual deposits of national banks and wholesale prices in the period 1899-1914, will show the effects of the investment activities of these banks on their deposits. Although the wholesale price index shows a decided cyclical fluc-

tuation, the corresponding fluctuation in deposits is conspicuous chiefly by its absence. Since the national banks, prior to 1914, were largely specialized commercial institutions, the data plotted on the chart are

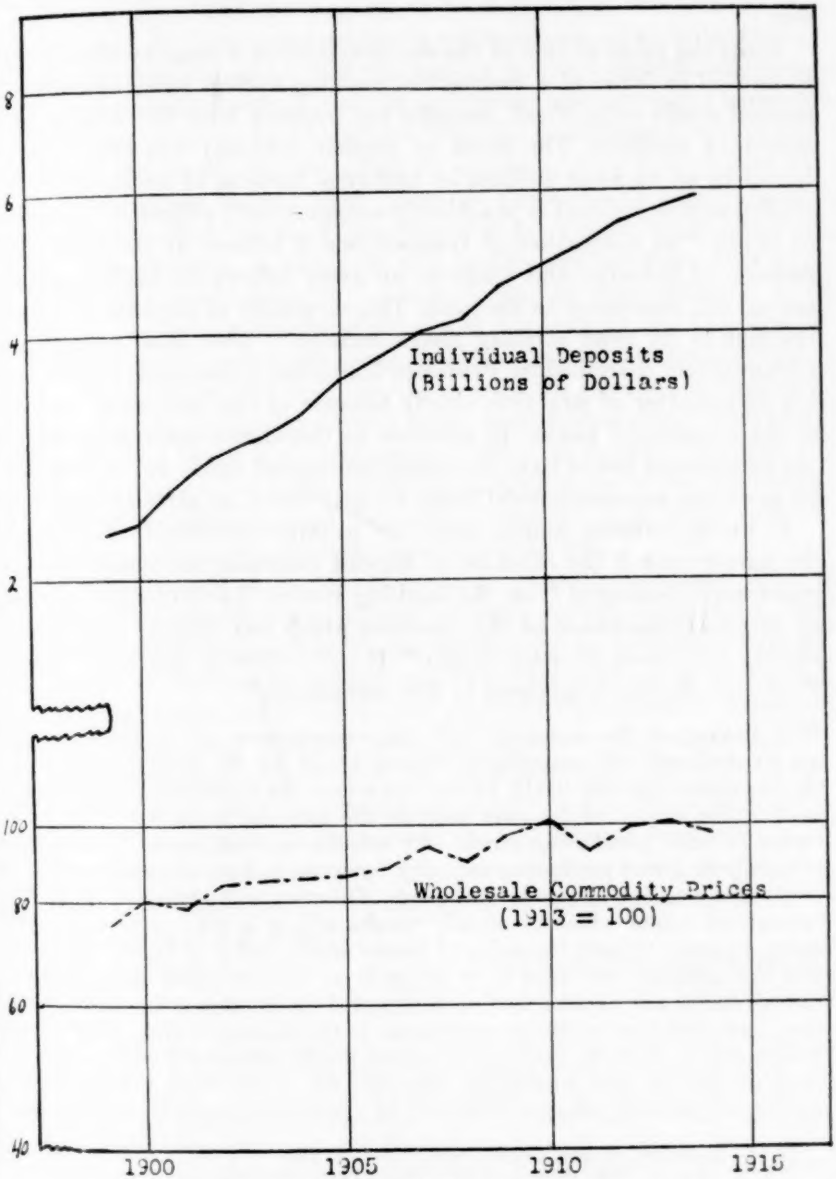

CHART I

INDIVIDUAL DEPOSITS OF NATIONAL BANKS AND WHOLESALE COMMODITY PRICES IN THE UNITED STATES. ANNUAL AVERAGES, 1899-1914

applicable to the point in question. The lack of cyclical fluctuation in the "deposits" curve may be explained in large part by the fact that investment in bonds (or other media of investment credit), equally with the extension of commercial loans, creates deposits in the banking system.

From the point of view of the social welfare of a country there is much to be said in favor of a commercial banking system which extends commercial credit only. First, consider the problem from the standpoint of monetary stability. The check or deposit currency has often been referred to as an ideal medium of exchange because of its elasticity, the readiness with which it is practically automatically adjusted to the needs of trade. "As a creature of transactions it follows at the heels of expansion of industry and trade as an army follows its leader, ready to spread out according to the need. This elasticity of expansion and contraction is its most striking characteristic."[9] This ideal attribute, so picturesquely described by Professor Laughlin, is, however, largely lacking as a matter of practice, chiefly because of the investment activities of the commercial banks. In addition to this direct investment demand, the commercial banks have furnished investment funds in large amounts by granting non-commercial loans to customers, as already noted.

It would, without doubt, make for greater stability in the value of the money unit if the creation of deposit currency for investment purposes were eliminated from the banking system. Lack of space prevents an extended discussion of this question which has already received convincing treatment at other hands.[10] It will suffice to quote briefly from Professor Monroe's analysis in this connection.[11]

> This linking of the currency with the consequences of investment should not be confused with expansions of bank credit for the purpose of financing the investment process itself. In the latter case the expansion of the currency must in the nature of the case *precede* the increase in output—*i.e.*, the increase in basic purchasing power—by months or even years. Its first effect is merely to divert productive capacity from the making of consumers' goods to the construction of producers' goods. Inflation will therefore ensue. The increase of output which eventually results will, it is true, require more currency, in order to keep the value of money stable, but it is highly improbable that this addition will need to be as great as the one which has already occurred, and in any event a preliminary period of inflation is inevitable. Moreover, since deflation is always unwelcome to the business world, there is every prospect that when the increase of output finally appears it will be made the basis of further, and successful, demands for credit. The value of money will be permanently affected. The kind of currency expansion advocated here,

[9] J. L. Laughlin, *Money, Credit and Prices,* ii, 721.

[10] A. E. Monroe, "The Standard of Value," *Quarterly Journal of Economics,* xlvi, 251 ff.

[11] *Ibid.*, pp. 276-277. I have not included in this quotation two explanatory footnotes which, however, do not materially alter the conclusions drawn.

however, does not come until it is needed. The previous fact of investment is treated as evidence of the present need for means of payment. This is what justifies the use of bank credit for a part—perhaps a substantial part—of the "working capital" of business.

It is clear, then, that the creation of bank credit, in the form of deposit currency, for investment purposes will bring about an inflationary movement by creating additional purchasing power a considerable time before the goods which result from the investment are put on the market. This might not itself be so undesirable from the social standpoint if the inflationary movement could be properly controlled in a way to prevent subsequent deflation from taking place. A steadily and gently rising commodity price level has much to commend it as an incentive to business activity. Consequently, a moderate and continuous inflation, although not furnishing a stable monetary standard, may be ably defended.

There is, however, a decided difficulty in the way of the attainment of such a monetary policy. An increasingly important body of analysis points to the fact that the creation of currency for investment purposes gives rise to serious maladjustments in the economic system.[12] The type of disequilibrium which is thereby engendered is an excessive amount of investment as compared with consumption. Unless measures are taken to stimulate consumption and decrease investment at a later date, a readjustment within the economic system is essential.

It has been suggested by Mr. Robertson[13] that central banking policy making for higher interest rates at an early enough stage would discourage over-investment, while the stimulation of consumption through an extension of installment selling could be used later as a stabilizing force. The difficulties involved in timing properly the necessary measures for control under such a policy, however, appear to be insuperable. If *any* expansion of deposit currency for investment purposes is to be allowed, what factors are to determine the exact point at which restrictive pressure is to be exerted? And how could the extension of consumer credit through increased installment sales be encouraged at the time it was needed and prevented when it was not wanted? No satisfactory answers to these questions seem possible.[14]

From a banking standpoint, security loans may properly be considered sound so long as they are adequately collateralled and of short

[12] See F. A. Hayek, *Prices and Production;* G. Haberler, "Money and the Business Cycle," *Gold and Monetary Stabilization* (Harris Foundation Lectures, 1932); C. O. Hardy, *Credit Policies of the Federal Reserve System,* ch. 16, sec. ii; and E. C. Harwood, *Causes and Control of the Business Cycle* for analyses leading to this conclusion.

[13] D. H. Robertson, *Money,* rev. ed., ch. 8.

[14] An index of inflation such as that constructed by Mr. Harwood, *op. cit.,* would, of course, show the degree of investment inflation, but would not offer a guide to indicate just how far such inflation might be allowed to proceed before restrictive measures were taken.

maturity. The safety of the loans, then, cannot serve as a satisfactory criterion of credit policy. Neither are security prices a reliable indicator in this connection; for prices of securities depend to a large extent upon what yield, or prospective yield, buyers are willing to take. Presumably, these prices should be fixed by the free action of the market to a considerable degree. Ten times earnings might be a proper average price for stocks, for example, in one stage of economic development, twenty times earnings in another after capital accumulation had largely increased. There is, in fact, no fixed level of security prices which would serve satisfactorily to indicate when restrictive central banking action should be instituted.

Control over the timing and extent of consumer credit expansion seems even less likely to be successful. Unless the sales policy of the producing corporations and the buying habits of consumers are both placed under the control of the central banking authorities, there is little likelihood that timing of consumer credit could be satisfactorily undertaken, to say nothing of the problem of determining the propriety of expansive or restrictive measures at particular times.

It would appear, accordingly, that *any* expansion of the deposit currency for investment purposes is undesirable. This does not mean, however, that the prevention of investment inflation[15] would eliminate completely the boom and depression periods of the business cycle. It is also possible to have an overexpansion of commercial credit by the banks. Such overexpansion may be said to exist when the credit extended by the banks is not used productively. In the words of the Federal Reserve Board,[16]

> Credit for short-term operations in agriculture, industry, and trade, when these operations are genuinely productive and non-speculative in character, that is to say, credit provided for the purpose of financing the movement of goods through any one of the successive stages of production and distribution into consumption, is a productive use of credit. But when the effect of the credit used is to impede or delay the forward movement of goods from producer to consumer . . . credit is not productively used. The withholding of goods from sale when there is a market or the accumulation of goods for an anticipated rise of price is not a productive use. It is the non-productive use of credit that breeds unwarranted increase in the volume of credit; it also gives rise to unnecessary maladjustment between the volume of production and the volume of consumption, and is followed by price and other economic disturbances.

Holding stocks of commodities for a higher price, whether carried on in the organized commodity markets or by merchants and dealers, requires an increased use of commercial-type credit. The credit is used unpro-

[15] The term "investment inflation" is used throughout to mean the creation of deposit currency for investment purposes.

[16] *Annual Report of the Federal Reserve Board, 1923,* p. 34.

ductively, however, as the Board has pointed out, and an overexpansion or inflation of commercial credit may be said to exist when this occurs. An accumulation of inventories by dealers and merchants, such as occurred in 1919-1920 (Chart II) is exemplary of this type of credit inflation.[17]

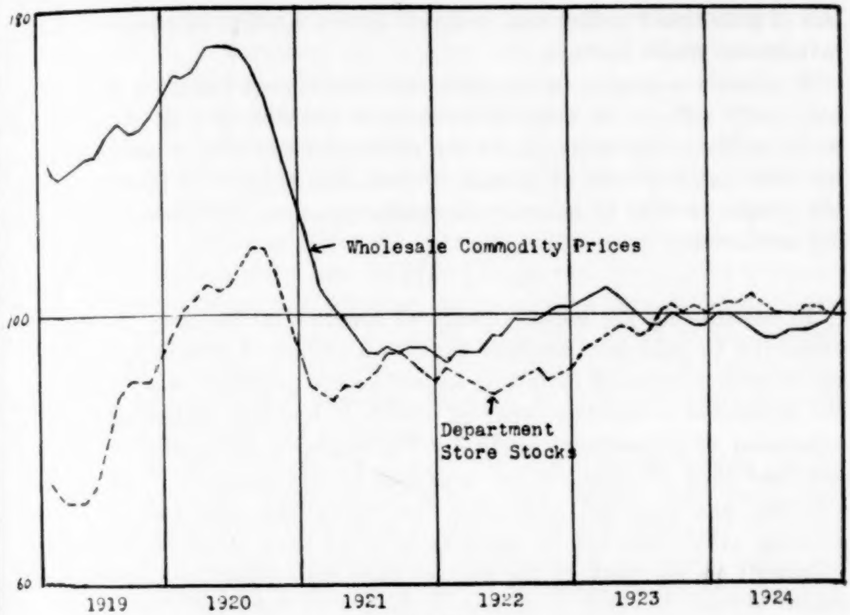

CHART II
WHOLESALE COMMODITY PRICES AND DEPARTMENT STORE STOCKS IN THE UNITED STATES, MONTHLY, 1919-1924

In attempting to prevent or restrict an inflation of commercial credit, the central banking authorities have greater chances of success than in attempting to control investment inflation. The statistical data evidencing the existence of commercial credit inflation, while not perfect, are sufficiently accurate and comprehensive to give a fairly good picture of the state of affairs. Moreover, by taking restrictive measures at an early enough point of time, the chances of successful control are by no means negligible. Efforts at the control of commercial inflation, however, cannot be properly exerted if the issue is confused by the presence of investment inflation at the same time. The timing essential to the success-

[17] Chart II is especially interesting in view of Mr. Hawtrey's theory that stocks of goods (*i.e.*, inventories) are not built up in a period of expansion, but accumulate only in depression. *Trade and Credit*, p. 160. Mr. Hawtrey's contention is borne out in respect to stocks of raw materials, but will hardly hold for retail stocks of department stores (which may be considered typical of retail stocks) as shown by the movement of the broken line in the chart.

ful, or attempted, control of the two types of credit inflation is not likely to coincide. In 1927-1928, for example, a large degree of investment inflation existed, yet the situation with respect to commercial credit indicated no need for restrictive measures. To follow the dictates of sound commercial credit policy was to disregard the necessities of the investment credit situation. Similarly, in 1919 and again in 1929, the problem of wise credit policy was confused by the conflict of commercial and investment credit factors.

It seems reasonable to conclude that investment inflation is not only not easily subject to control because of the difficulty of determining, within rather wide limits, just when restrictive measures should be taken, but that the existence of investment inflation frequently interferes with the proper control of commercial credit expansion by the central banking authorities.

III

In considering the social aspects of commercial banking theory, it is necessary to take into account the social effects of commercial as compared with investment *deflation,* as well as the possibilities of controlling the expansion of the two types of credit. It has been indicated that the expansion of commercial credit by the banks is susceptible of control provided that the issue is not confused by the existence of investment inflation, and provided, also, that the regulatory efforts of the central banking authorities are so timed as to make them effective. Mistakes in judgment on the part of the central banking authorities, however, are almost certain to occur from time to time with the result that efforts at control may prove abortive. Moreover, if the gold standard is to be reinstituted internationally, its successful operation will, at times, be likely to require the institution of a credit policy at variance with that which domestic conditions alone would dictate.[18] It must therefore be admitted that commercial credit inflation would probably occur upon occasion, even if investment inflation were effectively prevented. Assuming an overexpansion of commercial credit to occur, with the accompanying necessity for subsequent deflation, the social ill-effects of such a deflation would be less far-reaching than those involved in a deflation of investment credit.

Any deflation of credit involves loss and suffering to certain parties. In the case of commercial credit deflation, the loss falls heavily upon business men. Goods must be offered at prices less than cost in order to move them; inventories must be written down to the new market valuations; and debts must be paid without corresponding reduction. Many small, inefficient enterprises

[18] "The first indicator for national policy should therefore, in our opinion, be the gold reserves and the gold movements, and policy should, apart from quite exceptional circumstances, be directed to accelerating the effects which such movements create." *Final Report of the Gold Delegation,* Geneva, 1932, p. 50.

go to the wall, but the better managed concerns, although suffering substantial losses, continue to survive. The economic indigestion, however, is quickly cured. Excess goods are eliminated from the system, and, after a brief convalescence, normal functioning is again in order.[19]

A deflation of investment credit, on the other hand, has more serious consequences. As security prices go down, the borrower on stock and bond collateral is pinched for more margin. Loath to see his investments go by the board, he furnishes the required margin at the expense of his standard of living; but, if the deflation continues, he may finally succumb and be sold out. If borrowing on security collateral has been widespread, the social effects of the deflation are extremely disturbing. The losses, in the first instance, fall largely upon individuals. The efforts of the latter to maintain their margins and avoid being sold out, however, ultimately affect business adversely through cutting down consumer demand for goods, even those who could buy being restrained from doing so by the adverse psychological effect of the losses they have suffered. Moreover, if the deflation is drastic, a loss of confidence in the banks, caused by the failure of a number of poorly or fraudulent managed institutions, may ensue, with resulting wholesale failures, hoarding of hand-to-hand money, and much loss and suffering.

In the event of a widespread loss of confidence in the banks, the investment holdings of these institutions—bonds which they have purchased outright—stand them in poor stead. The withdrawal of deposits can be met only by the liquidation of investments, while the concerted liquidation of bonds by many banks breaks the market and brings heavy losses, many times actual failure, to the liquidating institutions. The "vicious spiral of deflation," noted so frequently by banking observers at the close of 1931, is a practical example of the difficulties which may arise from the heavy bond holdings of banks in a period of extreme depression following a large overexpansion of investment credit. The idea, which has from time to time been expressed, that the repayment of security loans by borrowers or the sale of bonds by the banks involves no decrease in purchasing power, since the banks immediately relend or reinvest the funds obtained, thus insuring their use, is not always sound. If the banks use the funds to repay indebtedness at the reserve banks, the latter not offsetting the decrease in discounts by open market purchases, or if the banks build up surplus reserves following a liquidation of loans and investments, total money purchasing power in the form of deposit currency is sharply contracted.[20] When this occurs, the exchange

[19] F. A. Bradford, *Money*, rev. ed., pp. 373-374.

[20] "Thus member banks began the new year with excess reserves of about $575,000,000 and with aggregate indebtedness to the reserve banks reduced to $270,000,000, representing a reduction of this indebtedness of $585,000,000 from the peak of the early part of February." *Federal Reserve Bulletin*, January, 1933, p. 1. At the close of 1932

of goods and services is impeded until business and prices have been readjusted to a lower level. With a deflation of commercial credit a similar reduction in deposit currency may occur, but, as previously noted, the readjustments are quickly effected, the process being much less painful than is investment deflation.

IV

It remains to examine the practical possibilities of developing a commercial banking system which is really commercial. What alterations in current banking law and practice are essential if this end is to be attained? One necessary change, in the judgment of the writer, is a much more complete legal and actual differentiation between demand and time deposits than now exists. At present demand deposits are defined as deposits payable within thirty days and time deposits as deposits payable after thirty days. The right to require thirty days' notice is, however, optional with the bank in the case of savings deposits and is practically never enforced except in times of stress. If both a commercial and a savings business are to be carried on by the same institution, there should be more distinction than now exists between these two types of deposit. Real savings deposits represent investment surpluses of individuals and it is perfectly proper that they should be devoted to investment in fixed capital; but, if this course is to be followed safely, the banker should be assured that he will not be called upon to repay depositors in large numbers at a time and without due notice.

It is suggested, therefore, that time deposits be made subject to ninety days' notice and that bankers be required to demand such notice at all times. Further, time deposits should be restricted to the pass-book type of account and limited in size to a maximum of $5,000.[21] Although these provisions would cause some inconvenience to individual savings depositors and would eliminate largely the maintenance of large time deposits by business enterprises, they would, in the end, have a decidedly salutary effect on the savings bank business. Too many savings accounts are kept chiefly for convenience with a view to avoiding service charges or balance requirements which are often applicable to checking accounts. Too many time deposits of business enterprises also are mere camouflaged commercial accounts which do not represent real investment surpluses. With the regular enforcement of a fairly long notice requirement the savings depositor would realize, to a greater extent than at present, that he was making an investment in turning over funds to the savings

net demand deposits of member banks were $3,000,000,000 less than in mid-summer of 1931, while reserve balances were at about the same level.

[21] The original Glass bill provided for thrift accounts bearing sixty days' notice and limited in size to $5,000. Segregation of assets for both thrift and time accounts was also provided for. Unfortunately, these provisions were dropped from later drafts of the bill.

bank or the savings department. The result would be, no doubt, a decreased amount of savings deposits, but turnover would also be decreased and there would be some assurance to the banker that these deposits represented real savings, not merely temporary surplus funds.

With the changed regulations regarding savings departments should come a segregation of assets of the savings departments in departmental banks. Savings and commercial banking are two very different types of business, and much harm can result from mixing the two. If they are both carried on by the same institution, they should be kept separate and distinct in every particular.

On the commercial banking side of a reform of the sort here suggested certain difficulties are encountered. For some years, particularly since 1927, many of the corporations of the country have shown little disposition to meet their working capital requirements by borrowing from the commercial banks. Instead, they have met these needs through the long-term capital market, or by the retention of earnings in the business in liquid form, in many instances acquiring in these ways more working capital than was needed at the time. The excess, appearing on corporate balance sheets under the head of "cash and marketable securities" or some similar title, was either held on deposit with the banks, loaned in the call loan market, or invested in marketable stocks and bonds. From the point of view of the banks, this had two undesirable effects. First, it greatly decreased the demand for commercial, or working capital, loans by business enterprises; and, second, it left the banks with large commercial deposits payable at demand or short notice. Practically the only course open to the banks, if they were to continue to make profits, was to divert these funds into investment channels.

Fortunately there is some hope for improvement in this quarter. The acquisition of working capital funds through the investment market under favorable conditions was made possible only by the bull market in stocks which held sway from 1924 to 1929. Barring the recurrence of similar conditions in the future, the corporations will doubtless find it more economical to obtain working capital through bank borrowing in traditional fashion than to resort to the capital market for short-term funds. The existing absurd notion, held by the managements of many corporations, that bank borrowing is a sign of weakness will probably give way to a somewhat saner outlook when such borrowing again becomes necessary.[22]

A second difficulty in carrying out the suggested reform lies in the problem of insuring the acceptance of the essential conditions by the banks. Legislation restricting the loans and investments of the commercial departments of the banks to the working-capital variety would seem

[22] For a more detailed treatment of this subject, see F. A. Bradford, "Cash Burdened Corporations," *American Bankers Association Journal*, January, 1932.

to be the only solution.[23] Such legislation should be put into effect, however, at a time when investment inflation in the banking system is negligible in amount.[24]

In order to obtain the desired results from a reform in commercial banking practice, it would be necessary for the federal reserve authorities to readjust their open market policy to the new conditions. The much lauded policy of buying bonds in periods of depression would be better dispensed with in some degree; for the commercial banks, being unable themselves to buy bonds in excess of savings deposits and capital funds, would have surplus reserves and more than adequate lending ability in such circumstances.[25] On the other hand, depressions should tend to be shorter lived and less severe if commercial bank credit were kept out of the capital market, so that drastic action by the reserve banks would be uncalled for. Credit control could be exerted where it is most likely to be successful, in preventing overexpansion of commercial credit. If this were done at all satisfactorily, there would be little need to worry about depression periods of extreme length and intensity.

The real function of open-market operations under the conditions proposed in this paper would be to maintain the reserves of the commercial banks at the proper level. That is, it would be desirable to increase reserves of member banks through open-market purchases to the extent necessary to keep pace with the sound expansion of commercial loans. Ideally, this policy should be modified from time to time to offset the effects of unusually large exports or imports of gold, the major purpose being always to keep member bank reserves at the height necessary to care for commercial needs. Practically, the requirements of an effective international gold standard would at times interfere with the pursuit of such a policy, although international coöperation might prevent too great a degree of interference.[26]

[23] The term "investments" is used here to mean open market purchases of bills and commercial paper. The law would have to define commercial loans broadly enough to include all working-capital loans of moderate duration, leaving it to the Federal Reserve Board to pass on particular cases as it does at present in respect to eligible paper. On this question see an article by the writer in the New York *Herald Tribune*, Financial Section, Sunday, January 22, 1933.

[24] The plan would require the elimination of call loans to brokers unless they were granted from savings deposits. Although the subject cannot be dealt with here, it is the opinion of the writer that the substitution of time loans based on savings deposits for the present call loan, while it would perhaps decrease margin trading and might slow down capital accumulation somewhat, would be of decided benefit to society.

[25] The purchase of bonds during a recession in business, to assist the banks in effecting the necessary readjustments, would not be out of order. Currency hoarding due to a loss of confidence in the banks, if it occurred, would also make an offsetting purchase of bonds by the reserve banks desirable.

[26] The advantages of the gold standard are probably more than sufficient to offset the disadvantages which the effective operation of that standard would impose on

V

The notion that the creation of deposit currency should result only from the extension of commercial credit by the banks is not a new one, yet it was very largely forgotten in the period prior to the break in the stock market. Dr. B. M. Anderson was a continuous objector to the expansion of bank credit as a source of capital during that period, but comparatively few others appeared to agree with him. More recently, a number of competent observers have expressed similar opinions. Thus Sir Arthur Salter states that "capital of this kind [long-term] cannot be supplied by the deposit banks without danger; for their primary duty is to see that they are always able to repay their depositors on demand, and they must therefore keep their resources liquid. In practice, banks have drifted into what has become long-term lending, but for the most part involuntarily. It is a dangerous function for them to discharge."[27] This is the viewpoint of orthodox commercial banking theory and is thoroughly justified. It does not, however, consider the underlying social aspects of the problem which are of great importance.

Again, one of the most able financial writers of the day, Mr. Edward H. Collins, in objecting to the financing of certain railroad bonds by the banks, asserts that "if we are to have a free movement of credit, we must get the banks out of the capital market and put them in a liquid position where they can perform the task of providing short-term funds for the nation's business enterprises. That, whether they are corporate institutions or private institutions, is their proper, their logical and their only legitimate function. When they depart from it, either voluntarily or through force of circumstance, they are departing from sound banking practices and depriving the business community of their chief usefulness."[28] Mr. Collins was prevented by limitations of space from supporting his position, but his conclusions are eminently correct.

Other writers have expressed more or less similar opinions in varying degrees of detail, but few of them have gone beyond the simple commercial banking theory, so admirably summed up by Sir Arthur Salter, in explaining their conclusions. Some more fundamental analysis of the problem is desirable if the full social significance of sound commercial banking practice is to be properly understood. Investment in fixed capital should be made with real savings—individual, corporate, or governmental—not with created purchasing power that is recallable on demand.

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domestic credit policy. In any event, if investment inflation were prevented, the disadvantages of giving effect to normal gold movements would not be serious.

[27] *Recovery, The Second Effort*, p. 102.

[28] New York *Herald Tribune*, Monday, March 28, 1932.

TAXATION AND THE MINIMUM OF SUBSISTENCE

Although the doctrine has long been advanced that a minimum of subsistence should be exempt from taxation, it has been uncertain what such a minimum should include and what taxes should allow exemption. A minimum of subsistence is a necessary cost of population; and taxes on subsistence tend to be shifted. It is sometimes argued that exemption of a minimum of subsistence would be impracticable on economic and political grounds. While the theory is frequently advanced that a minimum of subsistence should be exempt from taxation, our tariff duties and sales and property taxes encroach upon subsistence, although income and inheritance taxes are warded away from subsistence. In an exemption program, the absolute necessities of existence should first be exempt, and the level of exemption should be raised as conditions warranted. A minimum of subsistence could be measured by government boards on the basis of the relative factors involved. In our tax systems more weight should be given to ability to pay and the principle of progression.

For two centuries or more the doctrine has been advanced that a minimum of subsistence should be exempt from taxation. This doctrine has been accepted by numerous economists in various forms and on various grounds; other economists have ignored it or openly rejected it; while the framers of our tax laws have considered the doctrine to the extent that politics demanded and have commonly compromised on the issue. As the doctrine of exemption has been stated, there has been uncertainty as to what exemptions should be allowed and as to what taxes should allow exemption. An examination of the world's tax systems shows an appreciation of the desirability of exempting a minimum of subsistence, but shows at the same time a fixed habit of encroaching upon such a minimum. It is proposed in this article to state briefly the considerations justifying the exemption of some minimum of subsistence from taxation, to weigh the problems involved in exemption, and to indicate the practical significance of the doctrine of exemption in the construction of tax systems. For the present it will be assumed that a minimum of subsistence has been defined satisfactorily, but later discussion will be devoted to the problems of definition.

The Theory of Exemption

There are a number of reasons for granting exemption of a minimum of subsistence from taxation. A certain minimum, however it be defined according to the relative factors involved, is a necessary cost of maintaining population. Theories of exemption have often been based upon the assumption that a given supply of population must be maintained, probably due to the influence of the mercantilistic philosophy that a large population is necessarily a good thing in itself. Modern students of population problems have shown, however, that large populations may involve embarrassing social and economic situations. A more logical foundation for the theory of the exemption of a minimum of subsistence from taxation is the assumption that taxation should not be employed to modify the conditions of population, but to raise revenue. If it is de-

sired to place restrictions upon population, there are better methods than taxation for attaining this end; for the limitations of taxation upon population are effected more or less blindly and painfully. As long as fundamental population policies are unsettled, it is not wise to permit the use of taxation as an unguided influence upon population. The conclusion reached is that taxation should not disturb the fundamental forces that determine population. Rather, taxation should provide revenues without altering population tendencies, or at least until agreement is reached concerning the direction that population should take.

Taxes on subsistence, as the Physiocrats, Ricardo, Mill, and later writers have stated, tend to be shifted from the poorest elements of society to the richer classes through readjustments in the population supply and advances in wage rates.[1] Taxes on the absolute necessities of existence raise their prices in the long run and thereby lessen the purchasing power of wages. Smaller families must result from the reduction of real incomes by taxation, at least among those families enjoying only a minimum of subsistence. Eventually, through restrictions upon the birth rate and a higher death rate, population will be reduced sufficiently to enable the working classes to support themselves in spite of taxes. To be sure, a decline in population, leaving other factors out of consideration, may be avoided by the expenditure of government revenues for the relief of those impoverished by taxation. This is the practical policy followed by numerous governments. However, the wiser course, if it may be taken, is to avoid creating paupers by taxation by exempting a minimum of subsistence.

A fiscal reason for exemption may also exist. The costs of collecting small driblets of revenue from the poorest classes through certain forms of taxation may be prohibitive when they are compared with the revenues obtained.

There are other reasons which have been advocated from time to time in justification of tax exemption. It has been argued by Wagner and others with a socialistic philosophy that exempting a minimum of subsistence would mitigate present and tend to lessen future inequalities in the personal distribution of wealth and income.[2] This viewpoint hinges on the basic assumption that taxes should be employed to modify our present system of unequal distribution. It has been maintained also by Hobson and Dalton that even in the richest nations a large number of persons receive incomes just equal to or less than a minimum of subsistence, and that it is desirable, for the welfare of society, to exempt

[1] See Ricardo, *Principles of Political Economy,* third ed., 1821, chapter xvi, and John Stuart Mill, *Principles of Political Economy,* seventh ed., 1871, edited by W. J. Ashley, book V, chapter ii, section 3 and book V, chapter vi, section 2.

[2] Wagner, *Finanzwissenschaft,* second ed., 1890, volume ii, section 159.

such persons from crushing taxation.[3] Just how many persons enjoy only a minimum of subsistence is controversial, and will depend largely on the definition of a minimum.

Considerations against Exemption

Before some of the problems involved in measuring and exempting a minimum of subsistence from taxation are discussed, it will be helpful to mention briefly the factors which are held to render exemption impracticable. To a certain degree, the arguments against exemption of subsistence are arguments against all progressive taxation. It was reasoned by McCulloch nearly a century ago, and by Professor Taussig more recently, that the rich and poor pay the same prices in the markets and should also pay the same rates of taxation.[4] It is said that the great mass of workers in modern society enjoy more than a "living wage" and do possess taxable capacity; that there are grave political dangers arising from exempting a minimum of subsistence because the numerous nontaxed classes would enjoy a preponderance of voting power, or they would exercise a dangerous political influence; and because taxation induces interest in government, each member of society should share in the expenses of government, even though the contribution be small.

The most logical objection to exempting a minimum of subsistence from taxation is that the operation is impracticable, because of the impossibility of measuring the minimum, on the one hand, and the great obstacles to adjusting the tax system to exempt the stated minimum, on the other. This objection may be reserved for later consideration. There is also a logical basis for the argument advanced by Marshall, Stamp, and others that state expenditures may be more productive than private expenditures, and that the gains of the poorest classes from the taxation of subsistence may be greater than the sacrifices entailed in taxation.[5]

American Tax Systems

American tax systems have developed chronologically rather than logically. They are the outcome of the forces of expediency and political compromises. Federal, state, and local taxes overlap without much regard for each other, to the confusion of the taxpayer. Tax rates, exemptions, and administrative effectiveness vary among the numerous taxing units. A multitude of taxes is collected, and the effects of each tax are mingled in the effects of all other taxes in an indistinguishable train of consequences.

[3] Hobson, *Taxation in the Modern State,* 1919, chapters ii-iii and Dalton, *Principles of Public Finance,* 1923, pp. 81, ff.

[4] McCulloch, *Treatise on Taxation,* second ed., 1845, pp. 17-21, and Taussig, *Principles of Economics,* third ed., 1921, volume ii, p. 510.

[5] Marshall, *After-War Problems,* quoted by Stamp, *Principles of Taxation,* 1921, p. 49, and Stamp, *ibid.,* pp. 71-76.

About one-half of the ordinary receipts of the federal government during the fiscal year ending June 30, 1932, were derived from corporation and personal income taxation. The income taxes together produced $1,057,300,000 out of total ordinary receipts of $2,121,200,00. The corporation tax has been more productive than the personal income tax. The individual income tax allows personal credits of $1,000 to single persons, $2,500 to married persons, and $400 for each dependent, thereby granting exemption to a standard of subsistence that has been marked off roughly. The corporation tax, of course, is not a personal tax and is levied without regard to the personal status of the taxpayer.

During the same fiscal year, the yield of customs duties was $327,700,000. Our tariff system is primarily a wall of protection for American industries, constructed on a basis of politics, and imposing duties upon imports of sugar, wool and woolens, and many other items consumed by the masses. In our tariff legislation little attention is paid to the interests of millions of consumers with small incomes; but American manufacturing, farming, and wages are supposedly protected against foreign competition. Miscellaneous internal duties, of which the tobacco tax is far the most important, provided $503,700,000, including $47,400,000 from the estate tax. Our selected sales taxes are imposed upon the rich and poor without much discrimination, and, like the customs duties, are regressive in their effects. The pure luxury taxes of the federal government appear to be just in their burdens but insignificant in their yield, and administration is beset with numerous difficulties.

In the 1932 revenue bill additional charges were laid upon the sales of selected commodities and services, like gasoline and electrical energy, postal rates were increased on first-class mail, and higher and more extensive income and inheritance taxation was imposed. Rich and poor are taxed quite indiscriminately in the gasoline and electrical energy imposts and in the higher postal rates. A large part of the 1932-1933 federal revenues come from sales taxes that are regressive in their effects, although it may be argued that most of the items taxed are not a necessary part of subsistence. That, however, is a matter of opinion that will depend upon what one calls necessary. The electricity now being taxed is considered an indispensable item in millions of homes, and its taxation raises complicated issues. To a considerable extent, of course, the relatively regressive taxation of the masses by customs duties and sales taxes is counterbalanced by the heavier progressive taxation of incomes and inheritances. The situation is further complicated by the recommendations of President Hoover and Secretary of the Treasury Mills to Congress that a general manufacturers' sales tax be adopted and by the congressional search for new revenue sources.

The great bulk of local, and a large part of state, revenues is derived

from property taxation in its various forms, and especially from that upon real estate. While taxes on land values cannot be shifted by landowners, taxes on buildings used for business purposes tend to be shifted in higher prices for the products turned out, and taxes on dwellings tend to be paid by those who occupy them. The result is that the very poor who own or rent the most miserable living quarters are paying building taxes as well as taxes on their food, clothing, and other purchases. Intangibles have always evaded property taxation to a great extent, but the poorest classes usually have little or no property in securities, and cannot, therefore, benefit materially from such evasion, although they may gain something from the evasion of taxes on other forms of personal property.

The burden of property taxation is largely on real estate, and such taxation is regressive in its effects. The breakdown of the general property tax has been followed by modified property taxes with low rates on intangibles and personal property, or the exemption of such property and the substitution of an income tax, which the very poor usually do not have to pay. The yield of the state income taxes is still relatively small, but it is gradually expanding. Progressive income taxes, with exemptions for a minimum standard of necessities, or necessities and comforts, undoubtedly place tax burdens upon the more wealthy classes to the advantage of the poor. The same may be said of progressive inheritance taxes, which are widely imposed but which produce relatively low revenues.

Duties on consumption, in the form of general and selected sales taxes, are becoming more common among the states. The general sales taxes may allow some exemptions of necessities, like the sales of agricultural produce by farmers, but they are imposed upon all taxable sales without much discrimination as to the classes of consumers. The selected sales taxes, like the popular impost upon gasoline, which is now yielding the states over $500,000,000 annually, are confined to articles like tobacco, cosmetics, amusements, soft drinks, etc., which are not absolute necessities, but which the masses appear to consider an essential part of their consumption. So-called luxury taxes are frequently unimportant in yield and complicated and costly in collection because of the difficulties arising in defining luxuries, the possibilities of evasion, and the elasticity of demand for many luxuries, as American and foreign experience indicate. While it may be argued that the relatively regressive sales taxes and tariff duties of the federal revenue system are offset by the progressive income and estate taxes, it appears to be evident that our state and local tax systems are overbalanced with relatively regressive taxes on property and sales. The consequence is that, although income and inheritance taxes are warded away from subsistence, sales and property taxes in-

sidiously encroach upon the consumption of the most necessary commodities and services.

The productivity of net income taxation has been undermined somewhat by the general economic depression; and federal and state governments are turning to heavier sales taxation in spite of the great reductions in consumers' incomes. With the present tendency to lighten the tax burdens on real estate, it seems quite probable that more extensive sales taxation will result unless government expenditures can be cut sufficiently to obviate new levies. In time more states will probably adopt income taxes, although the present high rates of the federal income taxes will discourage such a step. The driving force behind recent tax revision has been the policy of securing the needed revenues wherever they may be procured and without adequate consideration of the lowest income classes who may suffer seriously curtailed consumption as a consequence.

The need of the present tax situation, with reference to a minimum of subsistence, is the elimination of blind double taxation by competing jurisdictions and of duties that subtly invade the confines of necessary consumption. The problems here are only a part of the larger problems involved in constructing our tax systems along more rational lines. Our tax systems should be appraised and revised in order that the effects of the various taxes may be harmonized and that iniquitous tax burdens may be removed wherever possible.

A Practical Exemption Program

A practical program looking to the exemption of a minimum of subsistence from taxation should be based upon a definite statement of policy. The most obvious and incontestable principle is that at least the lowest minimum required for physical existence should be exempted. An exemption program should start by exempting the lowest subsistence level and subsequently raise this level as fiscal and general economic conditions make this practicable.

It would be foolish to hazard a final and complete program with the objective of obtaining the exemption of a minimum of subsistence from taxation, for such a program can be worked out only gradually by our numerous taxing units as the complex underlying problems are more fully understood. Perhaps it is asking too much of our opportunistic tax legislators, under political fire from all sides, to draw up rational tax laws; but at least we may hope that progress will be in that direction through the years, if a few fundamental principles are clearly enunciated and at least formally recognized. At any rate, it does appear that a few practical suggestions may well be offered that would tend to lift oppressive taxation from subsistence.

Obviously, income and inheritance taxes should grant to all taxpayers

full exemption of a minimum of subsistence. Such exemption is already roughly effected for administrative and political reasons. Since other taxes frequently fail to exempt subsistence, it is imperative that income and inheritance taxes do not impinge on the lowest incomes. Raising the exemptions of these taxes would ease the burdens of some of the small taxpayers, but this would not be of benefit to the poorest classes, for they commonly pay no income and inheritance taxes under present laws. Poll taxes should not be laid upon the very poor, but these taxes are of negligible importance today and they do not appear to be increasing.

Consumption levies of all kinds, in the form of tariff duties and excises, should avoid the taxation of necessities like salt, sugar, the lower grades of woolens, etc. Coffee, tea, and tobacco are interesting borderline cases. These commodities are not strictly necessary, and taxes on their sales are very productive, but the masses consider them as necessary items of consumption. Moderate taxation of these semi-necessities is perhaps justifiable, for it is difficult to avoid such taxation when governments are hard pressed for revenue; and consumers, as John Stuart Mill and later economists have stated, should be responsible for exercising wisely their options and for purchasing those articles that are absolute necessities rather than luxuries or conveniences. The gasoline sales tax should be continued; for our automobile and gasoline taxes fail to cover highway costs by a wide margin.

Property taxes should not be collected from the very poor where exemption is within the bounds of administrative efficiency. The dwellings occupied by those enjoying only a minimum of subsistence, or a smaller income, should theoretically not be taxed. Likewise, the personal property of the same classes should be tax exempt.

The large group of business taxes that is imposed today complicates the problems of exempting a minimum of subsistence and renders it virtually impossible to allow complete exemption of subsistence from these taxes, unless such taxes should be abandoned. Business taxes, however, are productive, diversify the sources of revenue, lay governmental costs on organizations that enjoy governmental services and profitable social contacts, and are generally considered an indispensable part of our tax systems. To allow full exemption of subsistence from business taxation that is shifted along to ultimate consumers is impracticable, for it would be necessary to discriminate between different classes of consumers. Taxes on the raw materials, machinery, supplies, buildings, etc., employed in producing necessities would have to be removed or rebated in the exemption program. The only practicable plan seems to be the exemption of subsistence wherever possible and the allowance for unavoidable taxation of subsistence by governmental spending on poor relief, public education, etc. Our tax systems should be directed toward the policy of securing

relatively more revenues from progressive taxation and relatively less revenues from imposts that are regressive in their effects. To the extent that expenditures may be curtailed in the movement for governmental economy, the resulting reduction in tax burdens should be distributed along lines that will ease the weight on the poorest classes.

Measuring a Minimum of Subsistence

One of the most serious difficulties in attempting to exempt a minimum of subsistence from taxation is the measurement of a minimum. It seems entirely logical that at least a bare physiological minimum should be exempt; but even the lowest cost of subsistence must be a variable dependent upon the living standards and income of the community, the time, the place, the relative efficiency of the individual in spending his income, the number of dependents, the assumptions of persons measuring a minimum, the index numbers employed to take account of changing price levels, changes in consumption habits, and other particular circumstances. Some commodities, like sugar, are used both as necessities and luxuries and in both production and consumption. If all governmental revenues were derived from personal net income taxation, it would be relatively simple to exempt a level of subsistence from taxation; but, unfortunately for the purposes of this problem, a great variety of taxes is collected. A minimum of subsistence for tax purposes must, therefore, be more or less arbitrary and relative to changing conditions, and it can be measured only roughly. This minimum must be acceptable to the taxing community, for exemption of such a minimum depends entirely upon the possibility of formulating more definite taxation policies, which in turn hinges on a public appreciation of the problems involved.

Fortunately, measurements of the cost of living in various sections of the country have been made from time to time by the federal labor bureau and other agencies that have computed "health and decency standards," and other indices of a minimum of subsistence. A more adequate exemption of a minimum of subsistence from taxation would involve the cost of developing statistical methods to meet the problem in view; but this cost should be at least offset by the savings resulting from the non-taxation of the very poor in the way of lower costs of tax administration and smaller outlays for poor relief.

Efforts to exempt a minimum of subsistence from taxation would probably stimulate evasion by individuals seeking to escape their fair tax charges, but such evasion is already present in the failure to collect all the income and other taxes which taxpayers owe to governments. It is also uncertain what the earnings of small taxpayers are, and statements of their incomes for purposes of exemption, as is now true in income taxation, would rest largely on their honesty and intelligence. However,

the wider use of income taxation by the federal and state governments has educated taxpayers to a better understanding and a more accurate and comprehensive keeping of accounts. Perhaps one of the most serious objections to the exemption of a minimum of subsistence is the possibility of encouraging the pretense of poverty by those who have no legitimate claim to exemption, but this same problem is present in all poor relief. On the other hand, exempting from taxation those with incomes just sufficient to afford a minimum of subsistence would obviate the pauperization of these elements by taxation and would lessen government spending on poor relief.

For the sake of the present discussion the supposition may be advanced that a bare minimum of absolute necessities cannot be taxed, in the long run, because taxes on subsistence are ultimately shifted as the supply of population is restricted. May the conclusion not be drawn, then, that taxes may be imposed without regard to this minimum? Is it not true also that taxes on the very poor must be remitted in poor relief, and are, therefore, harmless? This reasoning overlooks the fact that population changes work out slowly and may be accompanied by much human suffering. The demoralizing effects of creating paupers by heavy taxation, the deleterious influences of such taxation on social progress, and the tendency to deepen the inequalities of classes by pushing the poorest groups farther into the mire of poverty should not be dismissed too lightly.

Political Objections to Exemption

Proposals to exempt a minimum of subsistence from taxation have been attacked on the ground that a policy of exemption entails questionable political results. It is argued that tax payments are conducive to civic responsibility because a citizen is forced to take an interest in government when he contributes to its upkeep. Doubtless direct taxes consciously paid do tend to awaken a sense of political interest, but indirect taxes paid piecemeal are likely to pass unnoticed. As a matter of fact, the particular taxes which infringe most patently and most viciously upon subsistence are the so-called indirect taxes. It is common knowledge that connecting the payment of poll taxes with the franchise has simply meant that many citizens are not sufficiently concerned about voting to pay their taxes. Many taxpayers do not vote and show no particular curiosity about government, just as many stockholders in corporations, with their investments at stake, fail to exercise their voting rights. The poorest elements are usually the most ignorant, and they would be least apt, furthermore, to appreciate the functions of government.

The exemption of a minimum of subsistence from taxation has been criticized on the grounds that it would extend favors to certain classes

at the expense of others. A vast amount of wealth and income is already tax exempt in the United States, for only a small share of the people pay income and inheritance taxes, much property is reserved tax free for religious, educational, and social purposes, and the tax-exempt security has been especially popular since the war. The National Industrial Conference Board has estimated that in 1921 property equivalent in value to one-fifth of our national wealth was tax exempt.[6] Many exemptions are undoubtedly unjust, for much property is turned to business uses instead of being used exclusively for social and other non-profit seeking purposes. However unjust and illogical some of our tax exemptions are, it does not necessarily follow that a minimum of subsistence should not be exempt, for there are good reasons for exemption here that do not obtain in other instances, where favors are granted to those well able to pay taxes.

Conclusions

Certain conclusions may be drawn from this brief discussion of the relationships of taxation and subsistence. During the last two centuries many writers have stated that a minimum of subsistence should be exempt from taxation, but there has been little agreement except upon the conclusion that the most meager necessities should be tax exempt. The tax-exempt minimum has been variously and loosely defined on the assumption that everyone knows what it is; but, unfortunately, many minima may be defined according to the changing and relative factors involved. In our tax systems little effort has been exerted by legislators to approach a scientific measurement of some minimum of subsistence in spite of the talk of the politicians about freeing the masses from vexatious taxation. Productivity is the most important practical consideration in taxation; and equity and regard for social justice seem to be too abstract for legislators to weigh adequately. However, it would no doubt be preferable for the tax system to be constructed with reference to a minimum of subsistence instead of openly declaring exemption in the income tax and then trespassing upon subsistence under cover by excises, tariff, etc.

It is preferable to avoid creating paupers by excessive and indiscriminate taxation instead of pauperizing the poorest clases by taxation and then turning around to repair the damage by expenditures for social relief. It may be true, in a given case, that funds taken from the poor in taxation will be expended more effectively by governments than by the individuals taxed. If private spending may be turned from the consumption of alcohol, for example, to the erection of schoolhouses, the poorest families will probably gain from the transaction, as well as society at large. But the taxes levied customarily upon the poor are not collected

[6] National Industrial Conference Board, *Tax Burdens and Exemptions,* research report 64, 1923, p. 128.

with the view of spending the proceeds upon the welfare of the poor. Instead taxes usually flow into the general funds of government; and funds taken from the poor may be employed for the benefit of other classes, just as the revenues employed for poor relief may come largely or entirely from taxes on other classes. It is a policy of wisdom, where practicable, to prevent causing the degradation of the poor by taxation, both in the interests of the poor and in the interests of society.

A consideration of taxation and a minimum of subsistence leads one to the conclusion that ability to pay should be given more weight in formulating our tax policies, indefinite as this standard is. Persons with negative ability should be aided by society; those with no ability should pay no taxes; and those with ability should be taxed according to that ability. To the extent that it is practicable, the policy of greater relative dependence upon progressive taxation should be followed. A minimum of subsistence for tax exemption may be established by governmental boards. These boards would no doubt be subject to some political influence, but politics are not lacking at the present time in passing our taxation measures. There is need for a definite and consistent policy here, rather than the present haphazard and uncertain program of yielding to all the political winds and taxing those who make the least commotion or offer no resistance. There are grave social dangers involved in the heavy taxation of the lowest classes. Especially in periods of economic depression, with unemployment and reduced incomes prevalent, should consideration be given to the tax burdens of the poor. Yet, it is in just such periods that governments are most in need of revenues, and are most tempted to broaden the tax base and lay heavier charges on the lowest incomes.

Before the general business depression set in, a trend toward more extensive state income taxation was in evidence, and the federal income tax was yielding satisfactory revenues. In order to realize a fuller exemption of a minimum of subsistence in our tax systems, more emphasis should be placed upon net income taxation. Because the poorest classes ordinarily do not depend upon securities for their incomes, taxes upon the net income of business would not seriously injure them, for such taxes are not shifted, except possibly in rare cases. Personal net income taxes should be favored, for they may openly exempt the income required for subsistence. The inadequacy of net income-tax revenues during depression might be overcome, in a measure, at least, by basing the tax upon net income averaged over a period of years.

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THE EXPANSION OF BANK CREDIT[1]

A statistical case method has been applied to the question of commercial bank credit expansion. A typical community was selected and an analysis made, covering an eleven-year period, of the accounts of the six banks in the area. In this functioning community of banks, two sets of relationships were found to be of special importance—(1) the maximum potential expansion, (2) the actual expansion. The ratios of potential expansion range from 3.4 to 1 up to 6.4 to 1, while those of actual expansion are 2.4 to 1 up to 6.2 to 1. The ratios tend to be greater during depression than in times of prosperity. The *potential* expansion per dollar of cash is greater among the large banks than among the small, although the *actual* expansion per dollar of the smaller banks exceeds that of the larger ones. It is suggested that the limitation upon credit expansion is the lack of equilibrium in the banking community and that the method used measures the net influence of the play of forces tending to destroy or establish this equilibrium.

The fact that banks can assume demand obligations and meet them while their cash holdings are but a fraction of the demands which are made, has been aptly called the "riddle of banking."[2]

That withdrawals are balanced by deposits, that credits cancel debts is the well known answer to the puzzle. But it is equally well known that seldom do debits and credits exactly compensate—rare is the business day ended without some net increase or loss in the cash accounts.

The magnitude of the ratio between the quantity of demand obligations and the smaller amount of cash, and the principles which govern its fluctuations, have long been subject to economic analysis. Prior to the publication of Dr. C. A. Phillips' book, *Bank Credit*, in 1920,[3] there was considerable unanimity of opinion to the effect that an individual bank could accomplish a multiple expansion of bank credit upon a given cash reserve. Mr. H. D. MacLeod gave this idea "general recognition and acceptance,"[4] although there has been persistent disagreement as to the exact magnitude of the ratios by which an individual bank or banking system might actually expand its credit upon its cash.[5]

Dr. Phillips, however, made a new set of assumptions, new distinctions, and reached a conclusion which modified the older theory. The new approach involved a "distinction between credit extension by an individual bank and that of banks taken in the aggregate."[6] The new conclusion resulting from this differentiation was that an individual bank, upon the acquisition of a new supply of cash or reserve, could increase its loans by an amount "roughly equal to such cash" and could not, as an individual bank, promptly bring about a multiple expansion of loans upon the new

[1] Grateful acknowledgment is made to the Social Science Research Council for a Grant-in-Aid which made possible the collection and analysis of the data, part of which is presented in Section III of this paper.

[2] Professor W. A. Scott, in his lectures on banking, delivered at the University of Wisconsin—unpublished.

[3] The Macmillan Company, New York, 1920.

[4] *Money and Banking*, Horace White, Ginn, Boston, 5th ed., 1914, p. 197.

[5] See Part II of this article.

[6] Phillips, *op. cit.*, p. 32.

reserve as the "time-honored theory" had maintained. Put in Professor Phillips' words:

. . . the current theory of bank credit is predicated upon the contention that a bank would be able to make loans to the extent of several times the amount of additional cash newly acquired and held *at the time the loans were made*, whereas a representative bank in a system is actually able ordinarily to lend an amount only roughly equal to such cash. Writers in the past have assumed that the ratio of loans to cash on hand *after* the loans were made, as in the case of a representative bank thoroughly assimilated to the system, was an accurate measure of new loans that could be extended on the basis of new reserve. They have overlooked the pivotal fact that an addition to the usual volume of a bank's loans tends to result in a *loss of reserve* for that bank only somewhat less on the average than the amount of the additional loans.[7]

These general conclusions have been widely accepted so that today the older theory popular when Phillips first wrote is referred to as the "traditional theory,"[8] the fallacies of which are now happily exposed by many writers.[9]

Despite both earlier and more recent analyses, the problem of credit expansion has never before been taken directly to a community of banks, so far as this writer knows, where an examination could be made of the detailed day to day fluctuations in accounts as the exigencies of bank failures and openings, the ups and downs of the business curve, as well as the routine incidents of everyday banking impinge upon the question.

Such a survey, reported on the pages which follow, is quite different from that of Professor Phillips, both as to objectives and methodology. Therefore, it may be well to notice these differences before considering the statistical findings.

I

The method used in this survey may be called that of the statistical case study. A community, located in the Middle West, was selected which seemed sufficiently large to provide important inter-bank relationships yet small enough to present the elements of the problem in a rather simple setting.

There are five banks doing business in this county seat town of about 10,000 inhabitants in 1920, the first year of the survey. In 1931, at the end of the study, but two banks remain. Although on the periphery of

[7] *Ibid.*, p. 72.

[8] Russell D. Kilborne, *Principles of Money and Banking*, McGraw-Hill Book Company, Inc., New York, 1929, p. 360.

[9] Some which follow Phillips particularly closely are: Dewey and Shugrue, *Banking and Credit*, Ronald, New York, 1923, pp. 279-280; Russell D. Kilborne, *Principles of Money and Banking*, 2nd rev. ed., McGraw-Hill, New York, 1929, pp. 360-364; George W. Dowrie, *American Monetary and Banking Policies*, Longmans Green, New York, 1930, pp. 266-267; D. H. Robertson, *Money*, Cambridge Economic Handbooks, 2nd ed., 1929, Harcourt Brace, New York, p. 101.

the banking system, the community has suffered the ills characteristic of the times.

There are a few industries in the community and little hinterland of four counties and 65,000 population, which lend an interesting diversity to the banking process, but in the main it is an agricultural area, quite like about half of the counties in the United States when measured by extent of industrialization, population and bank deposits—and may be considered sufficiently typical of them to permit analogies.

The banks in this area are accepted as we find them—they are members of a functioning community of banks, carrying on in the midst of a process extending over a considerable period of time, a segment of which we study. We find credit transactions at the beginning of the period, throughout the period and continuing on into the future. The banks, having been established for some time, are "assimilated." Old loans are being collected and those banks with large "discretionary reserves"[10] are making new ones whenever in the judgment of the loan committee it seems wise. Other banks have smaller margins of liberty within which to work. There is no quiescent state at the beginning of the period of analysis. There are cash as well as loan problems.[11] The banks are of different size and are changing in size. The banking community is not self-sufficient. The daily routine of business is continually changing the conditions. There are many variables.

In using this method, the accounts of the banks constitute the raw data, and the nature of the bookkeeping practices of the banks condition the results which are obtained. Thus, our conclusions deal with the changing amount of reserve required to maintain a changing volume of demand obligations. This changing ratio, springing directly from the accounts which are under constant surveillance by the bankers in guiding the credit policies of their banks, is of practical and theoretical importance.

Professor Phillips limited his investigation to the influence of new reserves. In thus analyzing the influence of a portion of the total reserves, which portion is not segregated from other reserves in the bookkeeping processes of bank operation, he was obliged to make numerous abstractions and assumptions. Thus we find at the outset of the formal analysis in the chapter, "The philosophy of bank credit," an assumption of static conditions,[12] a quiescent state disturbed neither by bank credit expansion

[10] "Discretionary reserves" refers to the amount of reserves "carried in excess of the legally prescribed minimum." W. Randolph Burgess, *The Reserve Banks and the Money Market,* Harpers, New York, 1927, p. 33.

[11] For differentiation between cash and loan problems see W. A. Scott, *Money and Banking,* 6th ed., Holt, New York, 1926, ch. 10,

[12] "The sudden acquisition of a substantial amount of reserve by a representative individual bank, other things remaining the same, tends to cause that bank to become out of tune with the banks in the system as a whole." *Op. cit.,* p. 40. Also, see pp. 60-62, *ibid.*

nor contraction. Into this situation a new bank or an old one with new reserves, is introduced as a disturbing element. This bank increases its loans. All other banks in the community remain quiescent except as the single variable, the loan made by one expanding bank, disturbs their static repose.

Homogeneous banking units are assumed, "representative banks" are utilized, "other things are kept constant." It is further premised that all but 20 per cent of each loan will be withdrawn from the bank by the borrower and that only 1 per cent[13] of the checks drawn against the account created by the loan will be redeposited in the bank of the drawer. And finally, a 1 to 10 reserve deposit ratio is kept by the banking community.

Mr. J. D. Lawrence, in his *Stabilization of Prices*,[14] deals with the same question, the influence of new reserves, and makes much the same assumptions,[15] although introducing a time element which permits a consideration of a secondary flow and counter flow of funds.

The contributions made by Professor Phillips and those who follow his use of the theoretical technique have been notable. In concentrating attention upon the influence of new reserves on credit expansion and contraction, they have thrown needed light upon the problems confronting central banks whose principal controls over the banking community must be exercised over the reserve positions of the individual banks. At the same time, the limited objective of this type of analysis and the assumptions made because of the abstract nature of the problem confine the proper scope for the application of the results to a restricted, though well defined, area.

The lack of similarity between this objective and the broader one undertaken in the present survey should be clear. The purposes are quite different—ours being to measure the aggregate expansion of a changing fund of demand obligations upon a fluctuating aggregate of cash reserves, both totals being influenced by many variables the net results of which we measure. Professor Phillips' more limited purpose is to trace

[13] *Ibid.*, p. 38. This assumption is made in connection with an illustration and later qualified. However, the contention that credit expansion can be only approximately equal to new reserves rests upon the approximate accuracy of this contention. Mr. J. D. Lawrence, *Stabilization of Prices*, changes this one assumption from 1 per cent to 38 per cent and finds a coefficient of initial expansion of 1.79219.

[14] Macmillan, New York, 1928.

[15] Lawrence assumes the banks to be "of equal and similarly constituted resources and liabilities," *ibid.*, p. 363, "absence of compensating expansion by other banks," *ibid.*, p. 363, no "counter flow of checks on outside banks which will tend to cancel the adverse clearing balance," *ibid.*, an "average bank," *ibid.*, "only one bank which is expanding its credit," *ibid.*, "a self sufficient community," *ibid.* See note 13 for a single difference which accounts for a somewhat larger ratio of initial expansion (1.79219) than Phillips found. When vault cash is included the ratio becomes 1.701 (*ibid.*, p. 371) and the ratio of compound expansion is 5.23 (*ibid.*, p. 367).

the influence upon credit expansion of a single variable, new reserves.

Without, for the present, discussing further the significance of these diverse objectives, let us see what the statistical approach to the larger problem reveals. Immediately we are confronted with new problems as we attempt to measure the relation between cash or reserve and credit in this manner.

In the first place it is necessary to define carefully what one means by "cash or reserve" which forms the basis of credit expansion; the statistical units must be established. The next step is to discover the magnitude of the cash losses per dollar of deposits, in this continually changing circumstance and for some period of time. When this is done the actual and potential ratios of expansion are easily calculated, showing the changing relationship between fluctuating aggregates of demand obligations and reserves. And finally, it will be shown that this realistic treatment of the problem has theoretical justification.

II

It is necessary to identify the funds which constitute the "cash reserve" upon which credit is expanded both to aid in clearing up misunderstanding due to lack of uniformity in terms, and to establish the identity of the funds from various points of view.

The diversity of opinion among those who quote ratios of multiple expansion is largely traceable to the fact that they are not talking about the same thing. For instance, the Commission of Agricultural Inquiry reports:

> ... allowing for the fact ... that about one-sixth of the customers' borrowing will ordinarily be required *in notes* which the member bank will have to withdraw from the reserve bank, the expansive quality of a reserve deposit created by a loan or discount, in the case of a country member bank, would be about four and one-half instead of fourteen times the amount of the *reserve deposit.*[16]

Dr. Phillips says that "cash is used in a broad sense synonymously with *reserves*";[17] while Dr. A. C. Miller, before a congressional committee conducting hearings on the Strong bill,[18] found a ratio of 10 to 1 by basing it on "*balances standing to the account of a member bank on the books of the federal reserve banks.*"[19] At the same hearings Governor

[16] Report of the Joint Commission of Agricultural Inquiry, *Credit,* Part 2, Report 408, 67th Congress, 1st Session, p. 18, 1922. Government Printing Office, Washington, D.C.

[17] *Op. cit.*, p. 32.

[18] Hearings before the Committee on Banking and Currency, House of Representatives, *Stabilization,* 69th Congress, H.R. 7895, Government Printing Office, Washington, 1927.

[19] *Ibid.*, pp. 668-9, Part 2.

Strong demonstrated with a chart that the expansion of credit upon newly imported gold is $3.33 per dollar, after allowances are made for *reserves* and increases in *vault cash.*[20] Others simply state that the expansion is to take place upon "*money in hand*"[21] or upon "*established reserves.*"[22]

In estimating the ratios for British banking where legal reserve requirements do not enter to confuse, Mr. J. M. Keynes measures the expansion of credit on the basis of *bank and currency notes plus the balance carried with the Bank of England.*[23]

Upon what basis should the ratios be calculated? Since our purpose is to consider reserve cash as related to and limiting credit expansion, the proper content of these words *for our purpose* should be, in general, *legal reserves plus such discretionary reserves as can be promptly converted into legal reserves by transfer rather than by sale upon a market.* Such legal and discretionary reserves differ when considered from the point of view of the central reserve banks, the banking system, and an individual bank within the system.

Thus the credit expansion of the federal reserve banks is relative to gold and lawful money, these being the sole legal reserves of the central banks, and the basis upon which the reserve ratio published in the *Federal Reserve Bulletin* is calculated.

When the banking system is considered, balances with the federal reserve banks plus "cash in vault" must be viewed as the accounts which form the basis of credit expansion. These two accounts are interchangeable in the sense that one can be converted into the other simply by shipping the currency or coin—debits and credits being made without investigation, endorsement or other procedure.

That vault cash should be persistently ignored in dealing with the relationship of credit to reserve cash for the system as a whole can only be justified on the theory that vault cash is a constant and so not a cause of change in the credit extended by the system. However, if cash in vault is functionally related to the expansion of credit, or even if it is merely an erratic factor, its influence must be considered.

Before 1931 for a period of eight years, cash in vault increased or decreased with noticeable consistency in relation to credit as evidenced in net demand deposits. Indeed, a coefficient of concurrent deviations applied to this period gives a result of +.75.[24] The coefficient of correlation is not significant because of an evident lack of linear relationship—cash in vault exhibiting what appears to be a very interesting decreasing

[20] *Ibid.*, p. 422, Part i.

[21] W. H. Kniffin, *American Banking Practice,* McGraw-Hill, New York, 1921, p. 9.

[22] L. H. Langston and N. R. Whitney, *Banking Practice,* Ronald, New York, p. 252.

[23] J. M. Keynes, *A Treatise on Money,* vol. ii, p. 61, Harcourt Brace, New York, 1930.

[24] The data, taken from the June reports of the banks, as published in the *Federal Reserve Bulletin,* are as follows:

rate of increase with relation to credit.[25] The Federal Reserve Board attributes this to the substitution of credit instruments for currency, but it seems quite likely that there is an item of "decreasing currency costs" of credit expansion concealed here also.[26]

Since 1931 we know that the fluctuations in this quantity have been very erratic. Its influence has been made obvious in the great credit contraction consequent to the "run" on the banks.

It is sufficient for our present purpose merely to observe briefly that cash-in-vault requirements do fluctuate and that changes in this quantity do have a bearing upon the ability of banks to expand credit.

Having seen that reserve cash for the system as a whole encompasses balances with the federal reserve plus vault cash, let us turn our attention

Member Banks

	Net demand deposits	*Cash in vault*
1922	$15,509,073,000	$464,614,000
1923	15,756,419,000	428,911,000
1924	16,394,382,000	503,555,000
1925	17,670,740,000	524,343,000
1926	18,766,357,000	534,120,000
1927	19,208,041,000	537,856,000
1928	19,147,777,000	449,198,000
1929	18,977,213,000	433,491,000
1930	19,170,357,000	484,262,000
1931	18,055,000,000	519,135,000

[25] *Member Bank Reserves,* Report of the Committee on Bank Reserves of the Federal Reserve System, Government Printing Office, Washington, 1931, p. 12 especially.

[26] The report states in part, "The American public has widespread banking facilities and is thoroughly educated in the use of checks. Their demand for pocket currency consequently is relatively small, since its use is limited largely to transactions in which currency is the only convenient method of payment. In recent years there has also taken place a rapid increase in the use of checks for wage payments which has materially reduced the demand for cash for industrial payrolls." *Ibid. supra,* p. 11.

In estimating the influence of vault cash in restricting credit expansion, Governor Strong used the average vault cash held per dollar of deposits from 1910 through 1926 for purposes of prediction. (Stabilization Hearings, *supra,* p. 422, Part 1.) Mr. Lawrence used Governor Strong's figures. (*Stabilization of Prices, supra,* p. 370.)

The use of this average for purposes of extrapolation may well be questioned—not only for the reasons quoted from the report of the Committee on Reserves but because it seems improbable that increases in credit should bring about a proportionate increase in those "transactions in which currency is the only convenient method of payment." That is to say, will it bring about a proportionate increase in the funds needed to purchase tickets at the railroad, theater or money spent at the chain groceries? It is more probable that the increased need for currency would come with higher prices; and, should the rise in prices occur in commodity groups dealt in largely through the use of credit instruments, as in 1929 on security markets, it seems hardly probable that the increase in the demand for currency would be at the same rate established by the average over the period 1910-1926.

Whether price increases would occur in the commodity markets where currency is the only convenient medium of exchange, or whether in those markets where credit is mostly used would seem to be determined by underlying market conditions and the nature of the demand curves for the various goods.

to the individual member bank. Of course both accounts which are reserve accounts for the system as a whole are such for the individual bank. But there is a third account which is properly viewed as a reserve cash account by the individual banker. This important account is composed of balances carried with correspondents other than the federal reserve banks. This is a large account—its aggregate amount for member banks with all duplication eliminated is greater[27] than the legal balances kept by all member banks outside of the New York district.[28] It is a sensitive account, being in reality a marginal supply of funds the abundance of which means a plethora of credit. In our sample community the coefficient of correlation between this account and demand deposits never falls below $r = +.70 \pm .025$ for any of the six banks.

Because the federal reserve banks pay no interest on balances, it is well known that the individual banks transfer any surplus cash away from the reserve banks to these other correspondents which will give a small interest upon balances. And should legal reserves fall low in the federal reserve, a draft upon one of these interest-paying correspondents sent to the federal reserve may well bring the account back up.

Because these balances kept with correspondents other than the federal reserve form a reservoir into which surplus funds are fed and from which needs are met, they seem to hold a position more dominant than that of any other account over the credit policy of the interior individual bank.

In spite of the fact that state banking laws as a rule permit their inclusion, it is significant that such an important fund from the standpoint of the individual bank cannot be viewed as a reserve for the system as a whole. Any one individual member bank may convert its correspondent account into legal reserves or currency simply by a draft transferring the balance to the federal reserve; but it does so only by putting its correspondent in debt to the reserve bank for the amount of the draft to

[27] There are difficulties involved in making an estimate of the balances which banks carry with other banks because of the duplication and double counting which would result were a total taken of the "due from other banks" for all member banks. However, if we consider only the amounts carried with correspondents in the 12 reserve cities and eliminate balances carried elsewhere, while no doubt ruling out a significant quantity of funds which should be included, the double counting would be largely eliminated. The total of the funds carried "due to other banks" by the 237 institutions in these 12 centers, exclusive of the federal reserve banks, was in May, 1926, $2,158,590,000. *Federal Reserve Bulletin*, July, 1926, p. 557. At the same time, other banks owed these institutions in the 12 cities $578,836,000, *ibid.* While it is probable that a part of this was owed by foreign banks, if we subtract this sum from the amount owed to banks by the 237 banks in these cities, we should get a conservative estimate of the net amount of the balances carried for the account of other banks. This is the figure, $1,600,000,000, approximately.

[28] Balance carried with the federal reserve banks in leading cities other than New York, $935,292,000, and reserves held for all other member banks exclusive of New York City, $557,450,000, *ibid.*, p. 509, Table 5.

effect the transfer. Thus, while individual banks view correspondent balances as a most important reserve cash, the system as a whole cannot do so because somewhere in the circle of correspondents drawn against some bank must send imported gold or currency to the federal reserve to square the account; or, lacking these, it must borrow. Some institution must finally meet the issue with the federal reserve.

Recapitulating, then, the reserve cash which forms the basis of and potentially limits the credit expansion of our central banks is composed of gold and lawful money; the credit expansion of the system, *i.e.*, the member banks as a functioning group, is supported by legal reserves in the federal reserve plus vault cash; and when we consider the individual member bank we measure its reserve cash position by taking a summation of legal reserves, vault cash and balances with correspondents other than the federal reserve. Any one of these reserve cash accounts may become the limiting factor; and this is understood by the men who operate the banks.

III

Having decided upon the definition of "cash reserve" from the standpoint of the individual bank as differentiated from the central banks and the banking system, we now come to the second major problem—that of discovering the magnitude of the cash losses per dollar of demand deposits in the realistic setting of an actual banking community.

During the course of the survey of the community which has been briefly described, there have been six banks. Each has been given a number. Bank 1, the oldest and largest of the banks, had demand deposits which have been fluctuating about a $1,000,000 upper limit. This bank is a member of the federal reserve system. Bank 2, also a member of the system, is the second largest bank with demand deposits of about $750,000. Bank 3, a state non-member bank, has always specialized in what its officers have pleased to call "individual and personal" service and has remained even smaller, with deposits ranging from an upper limit of about $300,000 to less than $200,000 in recent months.[29] Banks 4, 5, and 6 closed during the course of the investigation. Bank 4, a small state bank with demand deposits never in excess of $130,000 was opened in 1923 at the outskirts of the town to serve the needs of an outlying business district. It closed in December, 1930. Bank 5 was a larger bank, being next in size to Bank 1 before closing in 1921. Bank 6 was opened in March, 1920, and reached a peak in 1922 with about $250,000 in demand deposits. After this date there was a continual decline, until early in 1928, it closed.

To secure the cash losses per dollar of demand deposits it was neces-

[29] In the third quarter of 1931, after the termination of this survey, Bank 3 was closed.

sary to examine the three sources of losses—those incurred by over-counter payments, through local clearings and through out-of-town clearings. There are no other sources of cash losses for the individual bank, all payments and disbursements eventually appearing in one of these three processes.

However, it is customary in this community to settle local clearings with drafts on correspondent balances, so that any net loss or gain in the local clearings is reflected in the change in the balances with correspondents. Consequently, to secure the total net gains and losses of cash each day, it was only necessary to take an algebraic total of the change in cash in vault and the change in correspondent balances. Thus, if there was a gain in cash in vault and a loss in correspondent balances, the loss was subtracted from the gain and recorded as a net loss or gain for the day depending upon which of the two items was the larger.

These calculations were made for a number of periods, one of which produced the following results:

TABLE I

CASH LOSSES PER DOLLAR OF INDIVIDUAL DEMAND DEPOSITS, PER CENT OF DAYS ON WHICH LOSSES OCCURRED, AND RATIO OF INDIVIDUAL DEMAND DEPOSITS TO MAXIMUM CASH LOSSES ON ANY GIVEN DAY. SEPTEMBER, 1921, JANUARY, MARCH, JUNE AND SEPTEMBER, 1922, JANUARY AND JUNE, 1933.

	Typical loss of cash per dollar of demand deposits	Percentage of days upon which losses occurred	Maximum cash loss on a given day	Demand deposits on the given day	Expansion ratio of deposits to cash necessarily maintained to pay on demand
	a	b	c	d	e(d/c)
Bank 1	$.01629	50.8	$68,428	$937,498	13.7 to 1
Bank 2	.01668	59.2	17,317	363,726	21 1
Bank 3	.01839	51.6	37,091	259,740	7 1*
Bank 6	.0229	52.7	27,920	203,825	7.3 1*

* If one extreme item be eliminated from the series of Bank 3, the typical loss becomes .01707 and the ratio 14.8 to 1. And if such an extreme item be eliminated from the series for Bank 6 the typical loss becomes .02171 and the ratio 14.8 to 1.

The typical loss per dollar of demand deposits shown above in Column (a) was secured by taking the arithmetic average of the losses during the sample period. So far as these losses are concerned, it would seem that the maximum ratio of deposits to cash could be almost 40 to 1. However, these averages are not useful in estimating expansion ratios and are included merely to show how very small the average losses are.

For the purpose of estimating an expansion ratio, it is the extreme losses which are likely to appear at any time for which the bank must be prepared and must guide its policy, rather than the average losses. If these extreme losses are considered to set a limit to the expansion of the bank's credit, Column (e) is significant.

Also, it would seem that the greatest aggregate losses which these banks each suffered on any period of consecutive days could reasonably be viewed as a limit to their expansion.

TABLE II

GREATEST CASH LOSSES SUFFERED DURING A PERIOD OF CONSECUTIVE DAYS AND THE RATIO OF AVERAGE DEMAND DEPOSITS FOR THE PERIOD TO THESE QUANTITIES. SEPTEMBER, 1921, JANUARY, MARCH, JUNE AND SEPTEMBER, 1922, JANUARY AND JUNE, 1923.

	Greatest cash loss during consecutive days	Average demand deposits during the period	Expansion ratio of deposits to cash necessarily maintained to pay on demand
	a	b	c
Bank 1	$83,764	$825,378	9.85 to 1
Bank 2	46,596	608,503	13.06 to 1
Bank 3	28,144	331,898	11.79 to 1
Bank 6	25,462	227,286	8.93 to 1

If we take the larger of the two losses, that is, the loss suffered on a given day (Table I), or the aggregate loss suffered by each bank on a period of consecutive days (Table II), we secure the following ratios of the expansion of demand deposits which could have been made upon every dollar of cash held in the three cash accounts of the individual banks.

TABLE III

COMPARISON OF MAXIMUM CASH LOSSES PER DOLLAR OF ACTUAL OR AVERAGE DEMAND DEPOSITS FOR A GIVEN DAY OR A PERIOD OF CONSECUTIVE DAYS. ALSO THE MAXIMUM EXPANSION RATIO POSSIBLE IN VIEW OF THESE LOSSES.

	Ratio for a single day (loss per dollar)	Ratio for consecutive days (loss per dollar)	Maximum expansion ratio based upon larger of Column a or b
	a (c/d Table 1)	b (a/b Table 2)	c
Bank 1	$.0729	.101	10 to 1
Bank 2	.0476	.077	12.9 to 1
Bank 3	.1428	.085	7 to 1
Bank 6	.1370	.112	7.3 to 1

These ratios assume, however, that upon the day or during the periods of maximum losses the entire cash resources of the banks would be required to meet the demand for cash and that every time such a large demand for funds appeared the banks would be forced to borrow or sell secondary reserves (of which they had few).

Let us, therefore, assume that these banks control their credit policy so as to maintain a seven per cent reserve in excess of the amounts which are found necessary to pay out in cash to satisfy these maximum demands.

TABLE IV

EXPANSION RATIO OF DEMAND DEPOSITS WHICH IT WOULD HAVE BEEN POSSIBLE TO ATTAIN AND PAY CASH ON DEMAND AND ALSO MAINTAIN SEVEN PER CENT RESERVES.

Bank 1	5.84 to 1
Bank 2	6.80 to 1
Bank 3	4.70 to 1
Bank 6	4.83 to 1

It is interesting to compare the above ratios to those actually maintained. These actual ratios were secured by taking a daily average by months of cash in vault, balance with the federal reserve, and balance with other correspondents. These averages were then totalled and divided into average individual demand deposits for the appropriate month.

TABLE V

TYPICAL EXPANSION RATIO OF INDIVIDUAL DEMAND DEPOSITS TO CASH ACTUALLY MAINTAINED BY MONTHS.

	Bank 1	Bank 2	Bank 3	Bank 6
1921				
September	3.1 to 1	4.7 to 1	4.5 to 1	
1922				
January	4.1 to 1	4.1 to 1	4.7 to 1	4.1 to 1
March	3.5 to 1	3.1 to 1	5.5 to 1	4.9 to 1
June	3.5 to 1	2.4 to 1	3.7 to 1	4.5 to 1
September	2.6 to 1	2.1 to 1	3.4 to 1	5.9 to 1
1923				
January	3.3 to 1	2.4 to 1	3 to 1	3.4 to 1
March	3.8 to 1	2.4 to 1	3.3 to 1	3.7 to 1
June	4.7 to 1	2.8 to 1	3.5 to 1	6.6 to 1

In the following table the medians of these expansion ratios for each bank are shown.

TABLE VI

TYPICAL RATIO OF INDIVIDUAL DEMAND DEPOSITS TO CASH ACTUALLY KEPT

Bank 1	3.5 to 1
Bank 2	2.6 to 1
Bank 3	3.6 to 1
Bank 6	4.5 to 1

If deposits be made the unit basis of comparison, we secure the following:

TABLE VII

AMOUNT OF CASH PER DOLLAR OF DEMAND DEPOSITS WHICH IT WAS NECESSARY FOR THE BANKS TO KEEP IN ORDER TO PAY ON DEMAND AND MAINTAIN SEVEN PER CENT RESERVES. THE AMOUNT OF CASH ACTUALLY KEPT PER DOLLAR OF DEMAND DEPOSITS AND THE EXCESS OF THE AMOUNT KEPT OVER THE AMOUNT NECESSARY AND, FINALLY, THE PER CENT EXCESS OF NECESSARY.

	Necessary from Table 4	Actual from Table 6	Excess b−a	Per cent excess of necessary
	a	b	c	d
Bank 1	17.12¢ to 1	28.57¢ to 1	11.45	67
Bank 2	14.7 to 1	38.46 to 1	23.76	162
Bank 3	21.27 to 1	27.77 to 1	6.5	31
Bank 6	20.70 to 1	22.22 to 1	1.52	07

It is apparent that Banks 1 and 2 had, during this period, considerable margin of liberty with a sizable cash backlog. Bank 6, on the contrary, carried but little more than a bare necessity.

These cash resources of the banks which are members of the federal reserve system were distributed in 1921 and 1932 during the month of March, as follows:

TABLE VIII

PERCENTAGE DISTRIBUTION OF RESERVE CASH HELD IN VAULT, WITH THE FEDERAL RESERVE AND WITH OTHER CORRESPONDENTS. MARCH, 1921 AND 1923.

	In vault	With federal reserve	With other correspondents
Bank 1			
March 1921	.146	.316	.538
March 1923	.144	.321	.535
Bank 2			
March 1921	.291	.383	.326
March 1923	.148	.231	.621

As has been stated before, the balances held with correspondents other than federal reserve are the most sensitive to changes in demand deposits in all of the sample banks.

It was thought that the ratios of cash losses to demand deposits might vary with the changing condition of business, as reflected in the magnitude of the deposits accounts. The trend and seasonal were therefore removed from the deposits curves and upon the basis of the resultant cycle curves, it was decided to select four periods, two of which might be viewed as depressions and two as somewhat greater prosperity.

For the depression periods figures were taken for September, 1920, January, March and June, 1921; and for the second depression period the data were taken for January, March, June and September, 1930, and January, March and June, 1931. For the two periods of somewhat more prosperity, January, March, June and September, 1922, January, March, June and September, 1923; and for the second period of prosperity, January, March, June and September, 1928, January and March, 1929.

An examination of these several sets of figures reveals that Banks 1 and 2, which are the only ones now remaining in business, have never had an expansion of demand deposits on cash greater than 4.9 to 1, and that prior to 1930-1931 when hit by a severe recession their ratios are not found to be larger than 3.6 to 1.

It will also be noticed that until 1930-1931 these ratios have been conservative in that larger expansion of deposits could have been made upon the cash and payments maintained without impairment of legal reserves. The potentially possible ratios range from 4.4 to 1 in 1930-1931 to 5.9 to 1 in 1922-1923.

TABLE IX

TYPICAL LOSSES OF CASH PER DOLLAR OF DEMAND DEPOSITS, COLUMN A; THE MAXIMUM CASH LOSSES PER DOLLAR OF DEMAND DEPOSITS, ON A GIVEN DAY OR A PERIOD OF CONSECUTIVE DAYS, COLUMN B; MAXIMUM CASH LOSSES PLUS SEVEN PER CENT RESERVES, COLUMN C; MAXIMUM EXPANSION RATIO OF DEMAND DEPOSITS UPON CASH AS ESTIMATED IN COLUMN C, COLUMN D; THE ACTUAL CASH HELD PER DOLLAR OF DEMAND DEPOSITS, COLUMN E; THE EXPANSION RATIO OF DEMAND DEPOSITS ON CASH ACTUALLY HELD, COLUMN F; THE RATIO OF CASH ACTUALLY HELD TO AMOUNT NECESSARY TO PAY ON DEMAND WITHOUT IMPAIRING RESERVES, COLUMN G.

	Typical loss	Maximum loss	Maximum loss plus 7%	Maximum expansion ratio to 1	Cash actually held	Actual expansion ratio to 1	Ratio e/c
	a	b	c	d	e	f	g
			Period of Depression—1920–1921				
Bank 1	1.7¢	13.69¢	20.69¢	4.8	29.3¢	3.4	142
Bank 2	1.9	10.15	17.15	5.8	28.7	3.5	167
Bank 3	2.1	17.04	24.04	4.2	16.07	6.2	67
Bank 4			not yet opened				
Bank 5	1.0	8.54	15.54	6.4	10.8	9.2	69
Bank 6	2.4	14.91	21.91	4.6	22.8	4.4	104
			Period of Recovery—1922–1923				
Bank 1	1.7	13.13	20.13	4.9	34.0	2.9	169
Bank 2	1.5	9.99	16.99	5.9	42.1	2.4	247
Bank 3	1.7	11.72	18.72	5.3	28.9	3.5	154
Bank 4			not yet opened				
Bank 5			closed September 17, 1921				
Bank 6	2.4	20.50	27.50	3.6	19.1	5.2	69
			Period of Prosperity—1928–1929				
Bank 1	1.5	14.62	21.62	4.6	39.5	2.5	183
Bank 2	2.0	14.18	21.18	4.7	28.1	3.6	133
Bank 3	2.2	21.01	28.01	3.6	22.2	4.5	79
Bank 4	2.3	22.06	29.06	3.4	25.1	4.0	86
Bank 5			closed September 17, 1921				
Bank 6			closed February 6, 1928				
			Period of Depression—1930–1931				
Bank 1	1.79	15.23	22.23	4.5	21.8	4.6	98
Bank 2	2.7	15.7	22.7	4.4	20.5	4.9	90
Bank 3	3.0	19.14	26.14	3.8	19.5	5.1	74*
Bank 4			closed December 30, 1930				
Bank 5			closed September 17, 1921				
Bank 6			closed February 6, 1928				
			*closed September 22, 1931				

With the exception of Bank 3 in 1922-1923, it will be noticed that the actual expansion in all banks which have closed was as great as, or greater than, the expansion which could be maintained without impairment of reserves. These banks could continue to operate under this circumstance only by liquidating secondary reserves of which there were few, or by borrowing. The latter course was adhered to. But this way out could not long be followed, and eventuated in their failure.

It will be noticed in Column d, Table IX, that the larger banks seem to have the largest potential expansion ratios, with few exceptions. It

appears that within limits which are not yet established, the larger the bank the greater the possible expansion of deposits upon cash. There are reasons why this should be so.

In the first place, the tendency of the larger banks to have the greatest expansion of credit upon cash may be partially explained by the nature of small numbers. A relatively small cash withdrawal from a bank with only $150,000 in deposits will mean a rather large relative withdrawal and hence materially reduce the possibilities of expansion.

But why do not demands for cash increase proportionately as the deposits increase in volume? The answer seems to be found in the nature and diversification of the accounts carried by the larger banks.

The accounts in the smaller banks, *i.e.*, Banks 3, 4, and 6, were dominantly consumer accounts, while the larger banks had more of the mercantile and commercial accounts. As purchases are made in the community the funds tend to flow into the business accounts while the remittances made by the business houses flow out of town to an appreciable extent in payment for stocks of merchandise at wholesale, utility service, insurance and other imports.

TABLE X
PERCENTAGE OF DAYS ON WHICH EACH BANK GAINED AND LOST CASH IN THE LOCAL CLEARINGS.

	Percentage of days showing gains	Percentage of days showing losses
Bank 1	59.7	40.3
Bank 2	75.8*	24.2
Bank 3	34.9	65.1
Bank 6	10.6	89.4

* Bank 2 has a more consistently favorable balance at the local clearing house than Bank 1, largely because it is local correspondent for a very large out of town bank which sends its items for collection against our local community to Bank 2, which in turn routes them through the local clearings mechanism. This, of course, also has a bearing upon the cash requirements of the banks.

These factors, however, would seem merely to shift a large part of the indebtedness of the larger banks from other local banks to out-of-town banks. Why should there be any appreciable net reduction in the cash owing per dollar of deposits, when out of town clearings are considered?

The answer must be found principally in the diversification of the larger bank's accounts. The larger bank is more apt to be in a position of having accounts with seasonal or other types of fluctuations so synchronized, accidentally or purposely, that peaks of deposits in certain accounts counterbalance troughs created by withdrawals in other accounts. A clever banker in a community with moderately diversified industries might so diversify and synchronize the accounts as approximately to equalize withdrawals and deposits of cash throughout a "nor-

mal" to prosperous year. A large bank, in a community which is not highly specialized, is much more apt to approach this ideal condition in which debits are balanced by credits than is a little bank whose deposits lack the variety necessary to attain the desired diversification.

The figures presented in Table IX also indicate that the ratios of expansion are larger in times of depression than in times of prosperity. This somewhat surprising result is due to the fact that there has been a multiple expansion of deposits upon cash and during the depression deposits do not decline as rapidly as the cash resources of the bank. This is no doubt largely attributable to the difficulty the banker meets in liquidating loans and discounts.

To convey a fuller understanding of the reasons for the magnitudes of the ratios it would be necessary to report here the analysis which has been made of over counter cash losses, local clearings and the influence of such factors as the method of collecting foreign items. But these all involve greater detail than can be here included and go beyond the scope of our second problem which was to discover the magnitude of cash losses per dollar of demand deposits in the realistic setting of a functioning banking community.

The answer to the problem is that the average losses per dollar of demand deposits range from 1c to 3c, but that the more significant maximum losses range from 10c up to about 22c; and, if these losses are to be paid on demand without impairment of reserves, the expansion of demand deposits upon cash should be somewhere between 5 to 1 and 3.5 to 1. But actually, the banks which have thus far successfully weathered the economic storm are banks which never permitted their ratio to exceed 3.6 to 1, until the current period of "hard times" and its accompanying cash losses forced the ratios up to between 4.5 and 5 to 1.

IV

As before stated, these conclusions are not to be compared to, nor held to contradict, those reached by Professor Phillips. His results deal with a much more specialized problem, that is, the initial expansion of credit by an individual bank upon the basis of new reserves under certain prescribed conditions.

Since central banks deal with changing reserve positions of individual banks almost exclusively, his analysis of the consequences of changes in reserves has practical significance. And the method used by Professor Phillips is the approved technique of the theoretical method—certain assumptions are made and into this controlled situation a single variable, new reserve, is introduced and a sequence of relationships traced. Flexibility can be introduced into this analysis by modifying the basic assumptions until they approximate the changing objective conditions, or

by weighing the influence of "unusual" or "erratic" factors which may not come within the purview of the assumptions.

It is unfortunate, however, that the widely accepted conclusion which Professor Phillips reached by the use of this technique does not contain the flexibility potentially inherent in the method. The statement that an individual bank can expand its credit by an amount only roughly equal to its reserves is true only under a narrowly prescribed set of conditions —namely, that the new reserves are limited to a few banks only, that approximately one per cent of checks drawn are redeposited in the bank drawn against, and that other things are held constant. Consequently the expansion resulting from the new reserves throws the system "out of tune."

If the new reserves should be distributed at all generally through the banking community, a quite different conclusion must be reached. As Mr. J. M. Keynes says, "there is no limit to the amount of bank-money which the banks can safely create *provided they move forward in step*."[30]

Professor Phillips recognizes this possibility[31] but does not consider it significant. Although statistical evidence is not available, it would seem that new reserves resulting from gold importations would most completely and nearly fit into the conditions leading to Professor Phillips' conclusion. When new reserves originate in open-market operations, however, the case is not so clear because the influence is understood to be general and widespread. And when new reserves are a consequence of rediscounting, the analysis is again open to question, but for another reason.

Is it not quite reasonable to think that new reserves which originate in rediscounting may as well be the result of a prior as the cause of a future credit expansion? Dr. W. Randolph Burgess states the point well:

> A member bank almost never borrows from a federal reserve bank in order to make a particular loan. It borrows rather when its balance sheet shows that reserves are deficient after the day's operations are completed. The borrowing comes as a net result of the making of loans, the payment of checks drawn, the receipt of deposits, and all the rest of the day's transactions. It is seldom possible to say just what transaction has led to borrowing at the reserve bank.[32]

Thus, although these various conditions might come within the scope of the theoretical method employed, they do not come within the compass of Professor Phillips' conclusion.

In this study the emphasis is shifted from tracing the influence of

[30] J. M. Keynes, *A Treatise on Money*, Harcourt Brace, New York, 1930, vol. i, p. 26.

[31] *Bank Credit*, p. 74.

[32] *The Reserve Banks and the Money Market*, Harpers, New York, 1927, pp. 179-180.

new reserves or any other single variable, to the more general problem of measuring the influence of all forces impinging upon the banks to destroy the equilibrium or balance within the banking community, that is, causing them to become "out of step."

From this point of view, any force which tends to make the banks "out of tune" is a limitation upon the expansion of credit. In addition to the influence of new reserves and equally important from our point of view, though possibly not from the standpoint of the federal reserve banks, are a large number of factors such as frozen assets, a bank failure in the community, a "run," a policy of expansion by a single bank or a group of banks, a stock market crash, a drought, a rapid rise or fall in the price level, the height of interest rates on money markets in New York, the diversity of the industrial and commercial activity within the community, or in general, anything which materially affects the flow of funds in or out of banks of a particular community. Is it not true that if we ignore legal reserve requirements, the limitations upon the expansion of credit by any individual bank or group of banks is determined solely by the demands for the credits, as in the case of our Banks 1 and 2, or by the lack of equivalence, however caused, between the income and outgo of reserve cash, as in the case of the rest of our sample banks?

From the standpoint of the individual member bank this is the significant approach. In concentrating attention upon the net changes in the aggregate cash reserves as related to the aggregate of demand obligations, this method not only measures the net influence of the many complicated forces at work, but it also avoids "putting names on dollars" in a way entirely foreign to the banker's thinking as he controls the credit policy of the institution.

A bank is a going concern the processes of which extend over a considerable period of time; and the credit outstanding is viewed as a generic whole, old loans and new loans, primary and derivative deposits being indistinguishable in the general mass of demand obligations. Against this aggregate of demand obligations the banker finds by experience that a certain fund of cash which fluctuates within loosely defined limits, is needed. He knows that if old loans cannot be collected and incoming cash is less than anticipated, he must contract, that is, reduce the proportion of new loans so that the outflow of funds will be lessened. Thus the ratio of expansion is reduced. Similarly, if there is a distinct seasonal index in the demand for loans involving a periodic increase, the ratio must decline below what it would be were the demand for new loans coincidental with repayment of old loans so that the flow of funds will be more nearly balanced. Or if, as Professor Phillips would have it, a sudden increase in reserves makes possible an increase in new

loans in a single bank so that the proportion of new to old loans is increased, the same result, a reduction in the ratio of expansion, may be expected, as Professor Phillips has so well shown.

Without multiplying the illustrations to show the forces operating in a similar or opposite manner, many of them with neutralizing effects, it should be clear that, while from the standpoint of federal reserve control attention may well be centered upon new reserves, this is but one small factor in the situation confronting the individual banker tending to determine the amount of his cash gains and losses per dollar of his obligations and so determining the expansion ratio.

The banker must continually watch the changes which take place in his aggregate reserves, but he places no names on dollars, and seldom attributes cash losses to any particular transaction. If, however, his reserves run low, he borrows temporarily if possible; and if the flow of funds does not return to his bank, he must reduce the proportion of new loans so that the outflow will be lessened. He thus contracts his credit; his expansion is reduced. And should the aggregate reserve increase beyond the accustomed figure, he may permit the excess to remain with an interest paying correspondent for a time, or place it on the investment market. If the increase be permanent, he may expand the commercial credits of the bank as opportunities for lending appear.

Viewing, therefore, the maximum reduction in the aggregate of cash reserves which appeared on a given day or period of consecutive days, after allowances have been made for legal reserves, as determining the amount of cash reserve which must be kept on hand, we find that from 1920 to 1931 our largest banks were in position to support bank credit some four and a half times larger than their cash reserves. The smaller banks should have supported smaller expansion.

Are these results to be construed as proving that the initial expansion of new loans may in the future be some four and a half times the amount of new reserves? They are not, no more than they should be held to measure the expansion of old loans, let us say, on the day before the notes fall due. What the expansion upon new reserves will be depends upon many things. Perhaps the most important controlling factors in the immediate past have been the inability to liquidate old loans and the unusual demand upon vault cash accounts. Under these circumstances new reserves may result in precisely no expansion at all.

The results here reported, if I may repeat, are based upon a cross-section of deposits and loans, whether old or new, primary or derivative, and while not precisely descriptive of the probabilities of cash losses incident to any particular loan, yet summarize the net influence of the play of forces.

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MR. KEYNES'S CONTROL SCHEME[1]

Mr. Keynes holds that control of the business cycle should be directed toward keeping the long-term market rate of interest equal to the long-term natural rate of interest so as to maintain an equilibrium between saving and investing. The long-term market rate may be indirectly controlled by regulating the short-term interest rates. The chief basis for Mr. Keynes's conclusion is the work of Mr. W. W. Riefler, which is reprinted in his *Treatise on Money*. When Mr. Riefler's charts are brought down to date there is evidence that the relationship between the long and short-term rates is not as precise as Mr. Keynes has insisted. Moreover, the economic developments of the past five years support the unlike behavior of the long and short-term rates. Therefore Mr. Keynes's proposal is of doubtful worth.

The causes and control of the business cycle are matters of dominant interest at the present time. In recent years, perhaps no one has contributed more to the understanding of the factors involved than Mr. John Maynard Keynes. No brief summary can do justice to Mr. Keynes's theory as set forth in his *Treatise on Money*. It is probably sufficient for the purposes of this paper to recall the general trend of his argument.

According to his analysis the solution of the business cycle lies in the maintenance of an equilibrium between investment in capital goods and saving. He contends that there is a natural rate of interest as well as a market rate, the former being the rate at which investment funds are utilized as rapidly as savers accumulate them, and the latter, that prevailing in the market.[2] Any departure of the long-term market rate from the long-term natural rate disturbs the fundamental economic relationships and results in changes in the price level. Hence the long-term market rate of interest must be controlled so as to keep it in line with the long-term natural rate.

Mr. Keynes holds that the rate on long-time investments does not lend itself to direct regulation. He argues, however, that the long-term rate of interest in the market is dependent upon the short-term rate of interest. In his own words,

> The main and direct influence of the Banking System is over the short-term rate of interest. But when it is a question of controlling the rate of investment, not in working capital but in fixed capital, it is the long-term rate of interest which chiefly matters. How can we be sure that the long-term rate of interest will respond to the wishes of the Currency Authority, which will be exerting its direct influence, as it must, mainly on the short-term rate?[3]

After an analysis of the behavior of the long and short-term interest rates he concludes,

[1] In the preparation of this paper a great deal of assistance and much invaluable criticism was secured from Professor C. A. Dice of the Department of Economics of Ohio State University.

[2] "According to my own definition 'sound credit conditions' would, of course, be those in which the market rate of interest was equal to the actual rate, and both the value and the cost of new investment were equal to the volume of current saving." *A Treatise on Money*, New York, Harcourt Brace, 1930, vol. ii, p. 350.

[3] *Ibid.*, vol. ii, p. 352.

We may carry away, therefore, to the next section of our argument the conclusion that short-term rates influence long-term rates more than the reader might expect and that it is not difficult to find sufficient explanation for the observed fact.[4]

By changing the discount rate and by open-market operations the central bank can control the long-term rate of interest.

The Basis of the Theory

Mr. Keynes bases his conclusion that the long-term market rate of interest is determined by the short-term market rate on an analysis of the money markets of England and the United States. He examines certain data on English long and short-term rates and finds that they warrant the conclusion that short-term interest rates determine long-time interest rates. No reference is made in this paper as to the merits of Mr. Keynes's analysis of the English rates.

However, Mr. Keynes finds most substantial support for his conclusion in the work of Mr. W. W. Riefler of the Division of Research and Statistics of the Federal Reserve Board, Washington, D.C.[5]

In the course of a general examination of money markets and money rates in the United States Mr. Riefler presents data which indicate that a very definite similarity in movement and in relative amplitude characterize long and short-term interest rates. The long-term rate is represented by the yield on sixty high grade bonds compiled by the Standard Statistics Company of New York City. The short-term rate is represented by a weighted average of short-term money rates constructed by Mr. Riefler himself. This average is made up principally of rates charged upon loans to customers by banks throughout the United States.[6] Speaking of these, Mr. Riefler says, "As indexes they can be used without question to indicate the direction of change in each market, and as fairly accurate indicators of the amount of change."[7]

The data extend from January, 1919, to approximately August, 1928, and are presented in the form of charts showing both the absolute and relative variations. The following note, which appears beneath the charts, explains the method employed in reducing the series to a comparable basis.

> The lower section of the chart compares relative rather than actual movements of the two series. Each series is shown relative to its own average fluctuations over the period charted. In order to obtain comparability between the relative fluctuations in the series, deviations from each average were divided by the standard deviation for the period. The zero line on the chart

[4] *Ibid.*, vol. ii, p. 362.

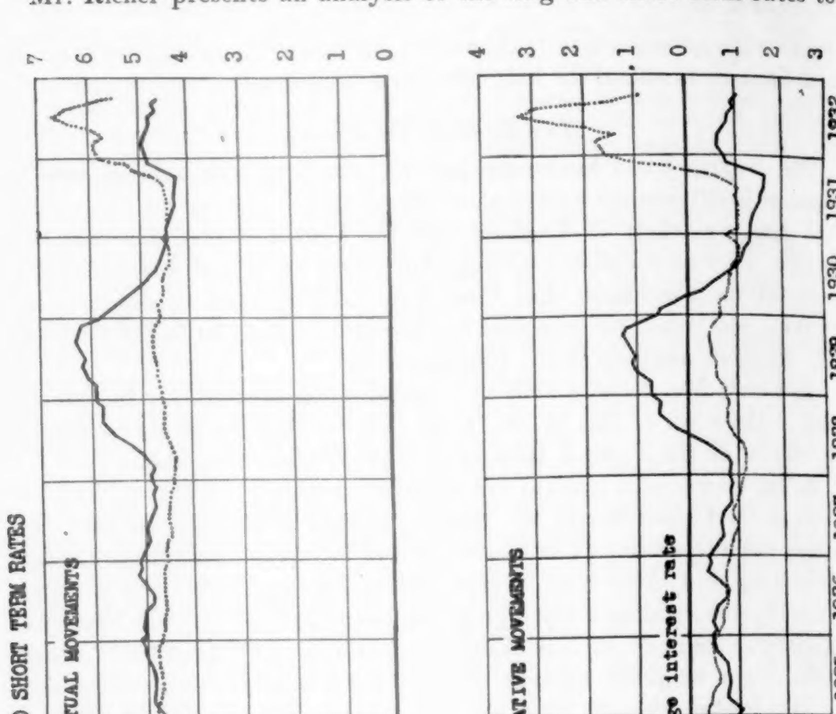
[5] *Money Rates and Money Markets in the United States*, New York, Harper, 1930, 259 pp.

[6] *Ibid.*, pp. 222-36.

[7] *Ibid.*, p. 7.

represents the average of the individual items in each series. When actual figures fall below the average they appear below the zero line and vice versa.[8]

Mr. Riefler presents an analysis of the long and short-term rates to



[8] *Ibid.*, p. 8.

account for the remarkable similarity of the movement of the series and concludes that "the surprising fact is not that bond yields are relatively stable in comparison with short-term rates, but that they have reflected fluctuations in the short-term rates so strikingly and to such a considerable extent."[9]

Through the courtesy of Mr. Riefler in supplying the average of short-term rates from the point at which his chart breaks off (August, 1928) to September, 1932, it has been possible to bring the charts down to date. The charts accompanying this article are identical with those of Mr. Riefler, except that they have been extended to September, 1932.

A glance at these charts will at once reveal that short and long-term rates of interest have not continued to exhibit the same behavior as they did prior to 1928. During 1928, 1929, and 1930 the long-term rate fluctuated neither absolutely nor relatively with the short-term rate and reflected only to a very mild degree the peak in the short-term rate. About August, 1931, the long-term rate began to rise steeply, and in the course of the following months it departed widely from the short-term rate. In other words, the past five years have not borne out the experience of previous years.

How are these disparities to be accounted for, and what relation do they bear to Mr. Keynes's theory of control of the business cycle?

The Significance of the Recent Behavior of the Rates

Offhand the breakdown in the relationship suggests that the proposal for the solution of the enigma of the business cycle involves an ineffective regulatory mechanism. Mr. Keynes's fundamental proposition, the establishment of a balance between investment and saving, is not involved in this discussion.[10] The behavior of long and short-term interest rates in the past few years, however, throws doubt upon his specific proposal for the application of his theory to the control of the business cycle. The means by which a balance between saving and investing is to be obtained are certainly less positive than is maintained in Chapter 37 of the *Treatise on Money.*

Mr. Keynes's discussion proceeds as if a universally applicable economic principle had been discovered. The discovery rests upon an empirical examination of the functioning of the money market by a rather simple statistical device. It is supported by a description of the activity of borrowers and lenders, which, in his opinion, gives "sufficient explanation of the observed fact." No question is raised as to the uni-

[9] *Ibid.*, p. 123.

[10] Mr. R. G. Hawtrey in a recent essay, "Mr. Keynes' Treatise on Money," in *The Art of Central Banking* (London: Longmans, Green and Company, 1932), has attacked Mr. Keynes's theories from many points. He suggests that Mr. Keynes has misinterpreted the statistics but does not bring out the criticism made in this paper.

versality of the proposition, and no allowance has been made for disparities such as appear in the latter section of the chart.

There is little help to be found in considering the period from 1928 to 1932 as abnormal and in insisting that in general the relationship does hold. Of what consequence is a theory of control, the mechanism of which does not operate in abnormal periods? The existence of abnormalities of appreciable magnitude suggests that Mr. Keynes's proposal is of doubtful worth.

Objection might be raised against the series which have been used to measure long and short-term rates. It should be borne in mind, however, that the charts presented here are identical with those which are reprinted in the *Treatise on Money*, except that they have been brought down to date.[11] The possibility that the statistical series may not be truly representative measures can scarcely explain the unmistakable disparity between the two rates. Long and short-term rates have not stood at the same relative level. Moreover, the economic developments in the period from 1928 to 1933 support the behavior of the indices.

Bond yields did rise to a high level in 1932 under conditions which are not frequently experienced, and there are indications that point to their return to a lower level. Nevertheless, the wide departure of bond yields from their average was accompanied by a large decrease in bond offerings for the securing of new capital. While there has perhaps been no great permanent change in the level of the long-term market rate of interest, the high level of bond yields in 1931 and 1932 was a large factor in discouraging the flotation of new bond issues. All during this time the short-term rates were unusually low, and the fact that the long-term rate shows so little relative correlation to the short-term rate from 1928 to 1933 throws serious doubt upon a theory of control which is based upon the dependence of the long-term rate upon the short-term rate. It is not unreasonable to suppose that a similar condition may again arise in the bond market.

We turn now to an examination of the economic background of the long and short-term interest rates in the years 1928 to 1933 in order to discover the cause of this unexpected behavior of interest rates. For purposes of analysis it is convenient to divide the period into two parts, (1) 1928, 1929, and 1930, and (2) 1931 and 1932.

Long and Short-Term Interest Rates, 1928-30

The short-term interest rate followed the course of the business cycle closely, rising with the expansion of business activity and then declining

[11] By comparing the chart with that appearing in Mr. Riefler's book it will be observed that the addition of four years' data does not materially alter the similarity of movement of the relative rates in the 1919-28 period. The same conclusions might be drawn from that section of the chart as have been drawn by Mr. Riefler and Mr. Keynes.

after the peak in 1929. Up to October, 1929, large demands were made upon the banks for money to be used in business and speculation. Loans of all banks in the United States expanded from $38,407,000,000 on December 31, 1927, to $42,201,000,000 on October 4, 1929, and in the same period the average of the short-term rates rose from 4.81 per cent to 6.29 per cent.

Federal reserve policy was in no small part responsible for the increase in interest rates on short-term funds. The discount rates were gradually raised, beginning January, 1928, and substantial amounts of securities were sold by the federal reserve banks. The central bank made its influence felt in the money market, and this was a factor not present to nearly the same extent from 1919 to 1921.

A tremendous demand for new fixed capital also manifested itself along with demand for working capital. Domestic new capital issues of corporate securities increased from $5,391,000,000 in 1927 to $8,639,000,000 in 1929.[12] This increase was due principally to the flotation of large amounts of common stock. The value of stock issued rose from $1,509,000,000 in 1927 to $6,089,000,000 in 1929, while the value of bonds issued declined from $3,882,000,000 to $2,550,000,000.[13] The funds for the expansion of fixed and working capital came from savings and from loans at the banks.

From June 30, 1928, to December 31, 1929, all banks in the United States decreased their investments by $1,283,000,000 in order to obtain funds to lend to their customers. This decrease, together with the sale of bonds by the public for the purpose of buying stocks, caused the price of bonds to fall. Correspondingly, bond yields rose until late in 1929, but not in the same relative amount as short-term rates. The holders of bonds did not dump large quantities of bonds on the market in 1929, at least not quantities large enough to cause bond yields to rise in the same proportion as short-term rates of interest.

It is important to point out that the use of common stock rather than bonds for obtaining long-term capital has a significant bearing upon the long-term rate of interest as represented by bond yields. If corporations had been obliged to rely on bond issues rather than stock issues for obtaining long-term capital, the yield of bonds would have

[12] *Commercial and Financial Chronicle*, Jan. 14, 1933, p. 229, and January 17, 1931, p. 383.

[13] The large increase in the flotation of common stock was due in part to the organization of great numbers of investment trusts in the United States during 1928 and 1929. For example, new security issues of investment trusts, holding, and trading companies amounted to $175,000,000 in 1927 and to $2,222,000,000 in 1929, according to data published in the *Commercial and Financial Chronicle*. Inasmuch as the portfolio of the investment trust is not composed of new capital issues, some of the stock issued in 1929, although classed as new capital, was not strictly new capital. It is evident, however, that in 1929 the stock market was utilized to a greater extent than ever before as a source of capital.

risen much more than actually was the case, because it is not to be expected that the bond market could have absorbed huge amounts of new issues without a decrease in the price of bonds. As it was, stock was readily marketable, and the yield on stocks was much lower than the yield on bonds. Hence, if the yield on stocks rather than the yield on bonds were taken as the measure of the long-term interest rate, one might argue that the long-term interest rate did not rise even as much as the bond yield series indicates.

As soon as business activity turned downward in 1929, the short-term interest rate began to fall and continued to do so until late in 1931. Loans at the banks decreased from a maximum of $42,201,000,000 on October 4, 1929, to $39,715,000,000 on December 31, 1930. The bond market began to recover after the collapse of the stock market in October, 1929, and as stock flotations decreased bond flotations increased. Neither the banks nor the bond-buying public anticipated a depression which might threaten the income from such investments. Evidence of the policy of the banks may be found in the fact that the investments of all banks rose from $16,634,000,000 on October 4, 1929, to $18,074,000,000 on December 31, 1930.

Several factors, then, account for the disparity between the relative levels of long and short-term rates in this period: (1) the cheapness of capital as obtained by stock issues rather than bonds, (2) the influence of the federal reserve banks on the short-term interest rates, and (3) the tenacity with which investors and banks clung to their investments in bonds.

Long and Short-Term Interest Rates, 1931-32

In spite of the partial and temporary recovery of business activity in the spring of 1930, the trend of economic activity continued downward. Bond yields, however, remained stable until late in 1931, although a slight increase is noticeable as early as March, 1931. Flotations of new corporate bond issues dropped from $3,399,000,000 in 1930 to $1,452,000,000 in 1931, and stock flotations decreased from $1,545,000,000 to $311,000,000. Domestic economic affairs were complicated by a large number of bank failures; and the departure of England from the gold standard, September 21, 1931, induced a run upon the gold stock of the United States, further intensifying the banking crisis. The banks were forced to sell large quantities of bonds in order to maintain or increase their liquidity. Investments of all banks decreased from $19,615,000,000 on September 29, 1931, to $18,237,000,000 on June 30, 1932. Moreover, a shift occurred in the type of investments held by the banks, which is illustrated by the change in the character of the investment holdings of the member banks. The investments of these institutions decreased from $12,199,000,000 on

June 29, 1931, to $11,414,000,000 on June 30, 1932, but holdings of United States government securities increased from $5,564,000,000 to $5,628,000,000 in the same period and other securities decreased from $6,635,000,000 to $5,786,000,000.[14]

It had also become apparent by the autumn of 1931 that the business depression was to be a prolonged one and that the earnings of corporations, especially the railroads, were so low that the payment of fixed charges was doubtful. The banking crisis, which took the form of a struggle for liquidity, and the anticipation of defaults by the public and the banks resulted in huge sales of bonds. The crash of 1929 had not induced the selling of bonds in any great volume, but the financial panic of 1931 caused a tremendous drop in bond prices. The yield of bonds rose to 6.72 per cent in June, 1932. New issues of corporate securities, both bonds and stocks, in 1932 totalled only $325,000,000. Even municipal and state issues, which had been floated at the rate of about $1,400,000,000 each year, dropped to $628,000,000 for the first ten months of the year.[15] The sharp increase in the yield of bonds practically stopped the flotations of new issues, and this increase was caused by factors widely separated from the short-term rate of interest.

Short-term interest rates as measured by Mr. Riefler's weighted average fell throughout 1931, except for the final months, when under the influence of the financial panic they rose sharply. Since March, 1932, the trend has again been downward, and it is unquestionably true that the lowness of short-term money rates has been in a large measure due to the easy money policy of the federal reserve banks.

It has been in the years of 1931 and 1932 that short and long-term rates have departed widely from one another. Although the general direction of movement has remained the same, the disparity in the relative levels of the two rates has been so great as to throw grave doubt on the correctness of Mr. Keynes's analysis.

General Considerations

From Mr. Riefler's charts and by his own analysis of the money market in England Mr. Keynes concludes that the long-term rate of interest is dependent upon the short-term rate. Mr. Riefler's charts, when brought up to date, demonstrate that Mr. Keynes's conclusion holds very loosely at best. During 1928, 1929, and 1930, years which are marked by a tremendous business cycle, the long-term rate did not follow the short-term rate closely, and did not exhibit the same movement relative to the short-term rate as in preceding years. During 1931 and 1932 the rela-

[14] *Federal Reserve Bulletin*, December, 1932.

[15] The decrease of issues of such bonds was due both to the poor bond market and the budgetary difficulties of the local governmental units.

tionship was even less close. There is, therefore, little reason to believe that the activity of the long-term rate of interest is closely connected to the activity of the short-term rate.

Here, then, is a period of approximately five years in which the long-term rate of interest has certainly not been a function of the short-term rate. The relative movements of the rates have not been as similar as they should have been had Mr. Keynes's theory been true. In any event, they have not been sufficiently alike to permit much reason for believing that the long-term rate of interest can be controlled by the direct regulation of the short-term rate.

Mr. Keynes and Mr. Riefler both speak of the long-term rate as "reflecting" the short-term rate. The suggestion is that the long-term rate is determined by the short-term rate. Probably a different analysis will better explain the behavior of the long and short-term rates, namely, that each rate is determined by its own set of factors, some of which, however, may be common to both.

The money market is obviously made up of a number of component markets, each of which is distinct from the others. Some overlapping always occurs among the various markets and has a tendency to equalize the rates or at least to make the direction of movement the same.

From 1919 to 1928 there may have been considerable interaction between the long and short-term markets, although that is not necessarily true, because both sets of causal factors may have been based upon economic conditions which were relatively stable throughout the whole period. However, since 1928, distinct and powerful factors in each market have tended to drive the two rates apart rather than toward each other. The influence of the common factors has been overbalanced by the pressure of distinctive factors. No bond between the two rates exists which makes inevitable the same relative fluctuations of the short and long-term interest rates.

If Mr. Keynes's analysis were correct, one would have expected that a much greater rise in the long-term rate would have occurred in 1928 and 1929 than actually took place. The high yield on bonds should then have discouraged the investment of funds in fixed capital. A tremendous investment in fixed capital occurred, however, principally through the medium of common stock. This event also suggests that the rate of yield on bonds is of less consequence in regulating capital expansion than Mr. Keynes has implied.

One might also expect from Mr. Keynes's analysis that bond yields would not have risen to high levels in 1931 and 1932 because the short-term rate of interest was really very low throughout the period. However, the fight for liquidity by the banks and the poor outlook for corporate earnings weakened the market for bonds and hence raised the

yield. The bond market has not been stimulated by low short-term interest rates as would have been expected from an application of Mr. Keynes's theory to the present situation. A complex of factors has offset any such influence of the short-term rate of interest. It therefore appears that the influence of the central bank over the long-term interest rate is very slight when it is most needed.[16]

The conclusion may be drawn from the analysis here presented that the long-term rate of interest is not determined by the short-term rate of interest. Circumstances have arisen in the past few years which unmistakably indicate that the long-term rate of interest is largely independent of the short-term rate. Mr. Keynes's scheme for the control of the business cycle therefore has a doubtful basis.

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[16] In a paper, "The Effect of the Depression upon Bond Yields," read before the 1932 convention of the American Statistical Society, Mr. Carl Thomas concluded that at the close of 1932 the short-term rates of interest had little effect upon bond yields and that the chief determiner of bond yields under such conditions was the volume of trade.

COMMUNICATION

Veblen Not an Institutional Economist

"An Appraisal of Institutional Economics" by Paul T. Homan, published in the March, 1932, number of the *Review*, may or may not have put an end to the use of the term "institutional economics" in economic discussions. In any event, his article presents implications which will not be accepted by all of those whom he finds not to be institutionalists.

No objection can be found with much of what Professor Homan says. I would agree that the term "institutional economist" does not mean anything sufficiently definite to be a serviceable designation of any individual or group of individuals. And especially is it a misnomer when applied to the late Professor Thorstein Veblen, notwithstanding Professor Homan's partial approval of the view that Veblen is the one and only institutional economist.

Whether or not it is his intention to do so, Professor Homan effectively identifies Veblen with the term institutional economics. His judgment is that all the so-called institutionalists, "with the possible exception of Professor Commons," are "legatees of Veblen's thinking." And when he comes toward the close of his article to a happy burial of the "current controversy between a posited institutional economics and a posited neo-classical economics," he finds the roots of the controversy going back to "an absurd anti-rationalism and an equally absurd and satisfied traditionalism." One gets the impression that Veblen and the "few thin essays, critical, hortatory and hopeful," written or inspired by him, have been wrapped in the burial garments of the aforesaid controversy and with it have been "consigned to the lower regions without sorrow."

It was the implication that Veblen's work was fundamentally anti-rational which is mainly responsible for this comment on Professor Homan's article. Such a view strikes me as deserving epithets almost as harsh as those which Professor Homan applied to the above-mentioned controversy.

Equally prominent with the association of institutional economics and the name of Veblen in Professor Homan's article is the contention that there is no such thing as institutional economics because there is no body of systematic theory to which the name can be applied. By systematic theory is meant, apparently, something comparable to theories of value and distribution in a competitive economic system. However, at one point in his discussion, Professor Homan says that fifteen years ago institutional economics was a faith that "an adequate organon of economic thought could be achieved by the accumulation of data and analysis of them in terms of an evolutionary process."

Now, after the passage of fifteen years, Professor Homan demands a transformation of this earlier faith into works. And the works must be so effective as to produce not only a new economic organon but also a new body of theory in a span of fifteen years. If those who subscribed to the faith fifteen years ago demanded any such results, their faith was not comparable even to the proverbial mustard seed.

In view of the fact that the essential features of a competitive system were present in England something like two hundred years before the development of a body of systematic theory of competitive economics, Professor Homan should be more patient. Can it be that his impatience over a lack of satisfactory accomplishments in fifteen years is a result of a long established habit of thinking in static terms? He asserts that no one questions the dependence

of current economic organization upon our cultural past, and adds: "But the task of developing it as a part of economic literature or theory faces a void both of language and of method, a void commonly jumped by the 'historical introduction'." He evidently recoils from the plunge into such a void.

Putting the argument as Veblen himself would have put it, where would the physical and biological sciences be now if scientists in those fields had recoiled from problems which lay outside of prevailing terms, concepts and technique of procedure? And the answer is that they would find themselves in precisely the position which economics will occupy if economists content themselves with such a continued juggling of accepted terms, concepts and theories as is implied by Professor Homan.

In his closing paragraphs, Professor Homan draws a happy picture that is almost like a bit of Victorian fiction. In it the clouds of controversy have cleared away: economists are busy at their varied and important tasks, and there is no definable schism of institutional *versus* other economics to mar the "common goal of economics in its aspects of problems, methods and generalized knowledge." In reading those paragraphs, I could not help smiling at the thought of the amusement which they would have afforded Veblen.

Because his writings were so generally critical of current economic theory and current economic organization, Veblen appears to have left the impression that his thinking was not systematic or mechanistic and even that it was anti-rational. This impression, no doubt, is in part responsible for his designation as an institutionalist.

It is true that Veblen scouted the alleged mechanism of equilibrium economics, to which variety of economic theory Professor Homan seems to accord a monopoly of mechanistic thinking in his ironical reference to "the benighted days of mechanistic thinking." Veblen's thinking ran in terms of a different mechanism; a mechanism which rested squarely upon a deterministic philosophy. Nevertheless, it was mechanistic. In his scheme of thinking, institutions were by-products rather than central objects of attention. For example, when he pointed out the change in the fundamental theory of property which came with the cultural change from the Middle Ages to the individualistic or natural rights period, he was not interested in giving an account of the evolution of the theory of property but rather he was using an effect upon a particular institution to show a more general change in habits of thought; a shift in social philosophy. And in accounting for this change of bias, or point of view, or philosophy, lying below the level of institutional organization, he was influenced largely by the theory of technological determination of Karl Marx.

Veblen was fond of contrasting methods of economics with those of the physical and biological sciences. He delighted in pointing out ways in which the current system of economic control obviously runs counter to the material well being of society. His particular aversions were orthodox economic theory, war, religion, politics and business enterprise. He thoroughly distrusted anything which ran in subjective, spiritual or teleological terms. One of his prime favorites among terms was "anthropomorphism." In pointing out that modern science and the machine process seem to be destroying all that is "respectable, noble and dignified in human intercourse and ideals," his approval of the destruction was one hundred per cent. He held that the current scheme of dominant institutions was not to be salvaged but sloughed off.

Professor H. J. Davenport on several occasions expressed regret that Veblen did not undertake to be constructive. And by constructive, I take it, he meant the formulation of something in the way of either a development of the existing system of economic control or a comprehensive scheme of control to take its place. However, in Veblen's view, economic systems made by economists had no validity. He unquestionably would have held that he was as constructive as a geologist or a physicist and that he could not be more so without violating the fundamental bases of his thinking. And I venture to say that he adhered to his basic postulates as rigidly as did the classical economists themselves.

In reading Veblen's criticisms of the currently dominant scheme of institutions, one is impressed with the idea that he thought the system served no useful purpose and was a serious handicap: or at best that it was a matter of vestigial survival. If it could only be swept away nothing would need to be put in its place. A similar impression is to be drawn from not a few socialist writers. In Veblen's case, at least, this view is not merely short sightedness. It follows from his general theoretical position. In making a distinction between business and industry; between traditional forms of control and an underlying technological organization of industry, he felt that the technological organization was essentially a new economic organization. To him the use of natural resources to feed, clothe and shelter the human race presented itself as a scientific or technological problem. With the sloughing off of prevailing business control, there would of course be necessary some expansion of technological organization in the way of coördinating machinery, but that would be set up in accordance with the scientific basis of industry—a sort of scientific management.

In attempting to appraise the work of Veblen, it is important, I think, to remember that he came to economics through the field of philosophy. His philosophic thinking was shaped in the days before scientists had demonstrated effectively the essentially intangible character of the physical world: when the contrasts between physical and non-physical (in a common-sense view) and between material and spiritual were still useful instruments of thought. In the midst of a prevalence of dualism, he revolted against the idea that spiritual insight led to a higher order of truth or reality. If the choice was to be one between appearance and reality he chose to find reality in the matter of fact knowledge of science. His philosophical bias became that of a materialistic monist. He was too clear a thinker to find anything absolute in the technique or conclusions of science but nevertheless his materialistic bias remained with him. Matter of fact knowledge was for him matter of fact. His literary tools of irony, humor and ridicule serve as a cloak not for the detachment of a cynic but for the zeal of a crusader fighting to advance the cause of his philosophy; striving to bring men back to faith in their common senses, and this in spite of the fact that the very notion of things like zeal and crusading was distasteful to him in the extreme. Like other zealots Veblen did not recognize it as zeal but only as an inescapable recognition of the truth.

Delaisi has written a suggestive and stimulating book on *Political Myths and Economic Realities*. The title does imply a realism in economics which is spurious but that is beside the point. The discussion shows how certain concepts or ideas have become so prevalent as to serve as standards or ideals in shaping the habits of thought of the men of given periods. Such for example were the concepts of the Holy Roman Empire and of the political

democracy of a later date. To these transitory ideals Delaisi gives the name of myth. Such myths, of course, are not confined to political affairs. In fact political democracy is only a special form in the political field of the general myth of individual liberty.

Delaisi might well have gone further than he did by pointing out the currently dominant myth, the myth of science which is making headway now even in the field of government. Veblen was above all else a prophet of this new myth. And the fact that our notions of science continue to change does not make this statement any less true. It is too early to say what will be the future significance of his work. If the prestige of science proves to be a passing fad with no great cultural significance, Veblen may rank only as a clever essayist with a unique vocabulary. But if science becomes a major myth, as it gives every promise of doing, he will be placed in the position of a social philosopher of the first magnitude. To call him an institutional economist would emphasize an incidental aspect of his work rather than characterize its essential features.

I may add in closing that I have found the writings of Professor Homan always stimulating: this article no less than others but in a somewhat different way.

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REVIEWS AND NEW BOOKS

General Works, Theory and Its History

American Business Leaders: A Study in Social Origins and Social Stratification. By F. W. Taussig and C. S. Joslyn. (New York: Macmillan. 1932. Pp. xiv, 319. $3.75.)

The purpose of this study is to inquire into the relative influence of inherited ability and environment as they affect the competition of men of the different income classes for the higher posts in business and for wealth. The data were collected by sending questionnaires to some fifteen thousand individuals chosen by the authors as representative business leaders in 1928. From an analysis of the eight thousand and more replies are drawn the conclusions of the study. Six relatively simple questions were asked concerning the present position of the respondent, the size of the business with which he was connected (as measured by gross income), the occupation of his father and father's father, the kind and extent of his formal education, whether he received aid from relatives or friends in obtaining either his present or first business position and whether he had as much as $10,000 to invest when he began his career.

The book sets forth clearly the procedure of collecting and tabulating the data, the difficulties encountered, the checks employed to guard against misinterpretation of the data, and the hypotheses which needed to be tested. In these respects it may serve as a model for future similar investigations. Space does not permit even a summary of the statistical analysis which occupies the major portion of this book.

The general conclusions reached by the authors are not novel. The fact that many of them are probably held by economists who are familiar with the general findings of psychology or who have studied the problem of the distribution of income, speaks in their favor. Possibly, however, some of the theories of the believers in the essential equality of human ability or in the notion that business success is largely a matter of luck, or "privilege," will be rudely jostled. It is shown that the American business leader is typically the son of a business man. Relatively to their numbers in the population, the farmers and the laboring classes had produced exceedingly few of the dominant men in business as it existed about 1928. The contribution of the farmers is decreasing, as might be inferred from their declining importance in the population. But instead of the slack thus created being taken up by the ever growing class of hired urban laborers it is being taken up by the business classes. Moreover, the evidence shows that the well-to-do classes contribute about 44 per cent of the leaders and that about 25 per cent are the sons of business leaders. Of course, as the authors say, these facts show that "hereditary ownership" of business does not prevail, since both percentages allow for a large number of men of the

poorer classes. But it must be remembered that these percentages are extremely high when we consider the proportions of the well-to-do and important business men in the population.

Thus far, the conclusions are only to the effect that those whose fathers are already well up the ladder of pecuniary achievement have a much better chance to climb to the top than those who must begin on the lower rungs. But *why* have they? Is it because of inherited ability or because, owing to luck, privilege, or ruthlessness, their fathers have already made some progress toward the top?

The inquiry does not give a categorical answer to the question. The authors say that business is an "open" vocation and they argue that because the laboring classes do not make a substantially better showing in business leadership than they do in the professional and literary pursuits (judging from Visher's study of individuals listed in *Who's Who*), entrance to which requires much more expenditure of time and money on formal education, the laborers are either innately inferior or are subject to severe material disadvantages. Their findings are against the latter factor. Only about 12 per cent of the leaders received financial assistance, only 32 per cent were college graduates (although an additional 13 per cent had attended college) and only 28 per cent additional had high school training or its equivalent. About two-fifths received some sort of aid in obtaining positions. This last statement must be taken with considerable reservation since it is a factor which is difficult for the beneficiary to measure, as the authors point out, and the influence of which he would have some reluctance in admitting. The conclusion of the matter is given as follows: "Taken as a whole the data fail to indicate that the degree of achievement of our respondents has been conditioned to any considerable extent by the environmental factors covered by the questionnaire" (p. 251). But the conclusion is, of course, a negative one.

An additional test of the "privilege view" as opposed to the "superiority view" is given. It is argued that, if the failure of the sons of the non-privileged classes to reach the upper ranges of business success were due to external obstacles, a relatively larger proportion of those who succeed would reach the topmost rungs of the ladder and a smaller proportion would remain in the lower grades than would be the case for the sons of the privileged classes. But such is not the case. Of course, the validity of the argument depends on the assumption that only superior individuals will succeed at all and that nothing external can stop such an individual.

The limitations which tell most against these conclusions are the limitations of the facts brought out by the questionnaire. The authors state in several places that their investigation cannot take account of the imponderables in the problem, among which are the social environ-

ment in which the son of a successful or moderately successful business man or professional man grows up. Such things as early association with people who converse about business, living in an environment of achievement, and learning early the art of handling men are undoubted advantages enjoyed by the sons of the privileged which are denied those of the less fortunately situated classes. But even these imponderables do not, in the opinion of the authors, count for very much. Hence, the final answer to the question, even though it be somewhat qualified, is that inequality of natural ability and not of opportunity is the prime cause of inequality of earnings between the several occupational classes.

With the analysis of the data derived from the questionnaire it would be difficult to find fault, and it would be ungrateful to ask that more be done where so much has already been accomplished. Yet the question may be raised whether the test of natural ability which has been employed in the study—*viz.*, business success—is the best one. Might it not be true that many men endowed with first-grade business ability are content to strive less for wealth and to strive more for imponderable achievements? If so, the question turns more on ideals and motivation and less on ability and external environment. Moreover, no control group has been studied, and without some other criterion of ability than success in business it is difficult to see how such a study could be made.

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Prelude to Economics. By William Aylott Orton. (Boston: Little Brown. 1932. Pp. xv, 285. $1.60.)

The book falls into four divisions: (1) "Introductory concepts"; (2) "Building the national heap" (production); (3) "Pricing department" (price determination); (4) "Sharing the national heap" (distribution). The content of these divisions rests upon one fundamental idea; that the abstract, hypothetical, and deductive method of classical economics is impractical and should be replaced by an inductive approach which attempts to formulate economic laws from observed happenings in everyday life.

In Part I Professor Orton traces the development of economic life from a period of status through the mercantile era to the system of laissez faire, and analyzes certain of the problems of the present system of private capitalism. Part II is primarily devoted to a brief statement of the technique and operating problems of certain of our basic industries such as those engaged in coal mining, food production, general manufacturing, and transportation. Part III begins with an excellent picture of the origin and character of demand, a statement of Say's law

and the principle of diminishing marginal utility, and a discussion of the origin and determinants of supply. In proceeding to a summary of the principles of price determination, the exposition is primarily confined to the law of supply and demand. Part IV presents the theories of rent, profits, interest, and wages. In his discussion of wages the author appears to ignore the possibility and the significance of knowledge and mobility on the part of a marginal increment, and stresses the impossibility of determining labor's marginal product, while forgetting that automatic reactions will take care of the situation even if marginal productivity cannot be determined. The result is an unwarranted assumption that minimum wage laws and trade unionism are necessary to the protection of labor.

With certain minor exceptions, among which must be included a somewhat naïve faith in governmental control of business, the principles summarized by Professor Orton are in harmony with current economic opinion. Especially praiseworthy, also, is the excellent illustrative material which lends a novel concreteness to many of the abstractions of economic science.

However, the book raises two important questions, and its significance rests upon the answer we give to these questions.

First, can any economic problem of everyday business be properly grasped and analyzed without a preliminary mastering of those basic principles of abstract, hypothetical economics which Professor Orton deems unnecessary and impractical? For example, can the student be expected to understand the problems involved in the production of any specific commodity (such as coal) without previously acquired knowledge of such basic facts, methods, and principles of production as the part played by primary factors, the nature of increasing, diminishing, and constant cost industries, the basic sources of productive efficiency, and the part played by competition?

Second, should any specific group of economic principles be treated at all, without being treated thoroughly? For example, can the student form correct ideas of price determination without a detailed examination of demand and supply schedules, of the various increments of demand and supply, and of the distinction between actual, abstract, immediate, normal, and final prices?

Those who believe that economic principles are best studied through an analysis of economic problems, and that a general introductory survey should precede an intensive examination of any phase of economic theory, will find Professor Orton's book useful. On the other hand, those who feel that a mastery of basic principles should be a prelude to the examination of complex actual business problems, and that these principles should be presented in their entirety at the time the student is

introduced to them, will probably prefer to place their faith in more highly abstract and intensive deductive outlines of economic theory.

DONALD SCOTT

Southern Methodist University

NEW BOOKS

CHAMBERLIN, E. *The theory of monopolistic competition.* (Cambridge: Harvard Univ. Press. 1933. Pp. x, 213. $2.50.)

CORNELISSEN, C. *Traité général de science économique.* Vol. II. *Théorie du salaire et du travail salarié.* 2nd rev. ed. (Paris: Marcel Giard. 1933. Pp. 724. 90 fr.)

DIEHL, K. *Die Lehre von der Distribution: Einkommensverteilung; Lohn; Gewinn; Zins; Rente.* Theoretische Nationalökonomie, Band IV. (Jena: Fischer. 1933. Pp. xii, 602. Rmk. 22.)

FAY, C. R. *Elements of economics.* Rev. ed. (New York: Macmillan. 1932. Pp. xxiii, 629.)

GEIGER, G. R. *The philosophy of Henry George.* (New York: Macmillan. 1933. Pp. xix, 581. $3.)

HICKS, J. R. *The theory of wages.* (London: Macmillan. 1932. Pp. xiv, 247. $2.25.)

HODSON, H. V. *Economics of a changing world.* (New York: Smith and Haas. 1933. Pp. 276. $2.50.)

HOOK, S. *Towards the understanding of Karl Marx: a revolutionary interpretation.* (New York: John Day. 1933. Pp. xiv, 347. $2.50.)

MÜLLER-ARMACK, A. *Entwicklungsgesetze des Kapitalismus: ökonomische, geschichtstheoretische und soziologische Studien zur modernen Wirtschaftsverfassung.* (Leipzig: Junker und Dünnhaupt. Pp. vi, 218. RM. 12.)

MYRDAL, G. *Das politische Element in der nationalökonomischen Doktrinbildung.* Translated from the Swedish by G. MACKENROTH. (Berlin: Junker und Dünnhaupt. Pp. xii, 310. RM. 12.)

ROBBINS, L. *An essay on the nature and significance of economic science.* (New York and London: Macmillan. 1932. Pp. xii, 141. $3.)

TACKE, G. *Kapitalausfuhr und Warenausfuhr: eine Darstellung ihrer unmittelbaren Verbindung.* (Jena: Fischer. Pp. xx, 172. RM. 10.)

TAUSSIG, F. W. *Wages and capital.* Reprints of scarce tracts no. 13. (London: London School of Economics. 7s. 6d.)

WICKSTEED, P. H. *The common sense of political economy, and selected papers and reviews on economic theory.* Edited by LIONEL ROBBINS. Vols. I and II. (London: Routledge. 1933. Pp. xxx, 398; vi, 401-871. 21s.)

Economic History and Geography

Economic Development in the Nineteenth Century: France, Germany, Russia and the United States. By L. C. A. KNOWLES. Vol. III. (London: Routledge. 1932. Pp. viii, 368. 12s.6d.)

To quote from the preface, signed by Mr. Knowles, "The present book is to be regarded as the second volume of a survey of the economic development of the Great Powers which the late Professor Lilian Knowles planned before her death in 1926. The first volume was published in

her lifetime under the title of *The Industrial and Commercial Revolutions in Great Britain during the Nineteenth Century.* . . . The book has been prepared for publication, in part from the sections of completed manuscript left by Professor Lilian Knowles, and in part by correlating and expanding her lecture notes."[1]

"From the point of view of economic development," writes Mrs. Knowles (p. 14), "the history of the great European Powers, after the French Revolution, falls into three periods, *viz.*, 1789-1848, 1849-70, and 1871 onwards." The first period "is chiefly concerned with problems arising out of the movement towards personal freedom inaugurated by the French Revolution and the French Wars"—a movement which effected the abolition of slavery, serfdom, gild restrictions and settlement laws. The abolition, subsequent to this period, of negro slavery in the United States and of serfdom in Russia are conceived to be tardy consummations of this characteristic movement. A transition to economic freedom on an international scale was effected during the "liberal era," 1849-70. During the third period, 1871-1914, "there is a return to state regulation in almost every department of life."

The first is also the period of the Industrial Revolution in England and in France. The extension of personal freedom, while more intimately associated with the Agricultural Revolution, forms a link between that and the Industrial Revolution, since free labor is, in a significant degree, a prerequisite to rapid industrial development along capitalistic lines. In the case of England, however, the emancipation of the serfs had taken place several centuries earlier than on the continent. This constitutes, for Professor Knowles, the basis for a classification of the great powers into those with an individualist tradition and those with a tradition of state action. England and the United States are placed in the first category; France, Germany and Russia in the second. Another basis of distinction among the five great powers, applicable primarily to the third period, is that between the agricultural empires, Russia and the United States, as against the more completely industrialized countries, England and Germany, with France holding "a position midway between."

A measure of synthesis is further contributed to Professor Knowles's work by the conception, expressed in the opening sentence of her volume, that the great economic forces at work in the world during the nineteenth century were "English invention, which for the first time gave man control over nature, and the French conception of economic liberty which followed on the French Revolution." The popular thesis that science (as distinguished from invention) is the begetter of modern industrialism finds no explicit recognition in her exposition. The emphasis is on the introduction of practices and processes into industry and ag-

[1] Vol. II was reviewed in December, 1931, pp. 714-717.

riculture almost to the exclusion of reference to scientific antecedents. Very little attempt is made to convey a vivid impression of the material conditions to which the great masses of the people were subjected during the nineteenth century. Possibly that was considered as part of the domain of social as distinguished from economic history. Neither are the two great movements which for some constitute the main aspects of the dialectic immanent in capitalism—the combination of labor and the combination of capital—accorded significant treatment.

LEO ROGIN

University of California

Rural Russia under the Old Régime: A History of the Landlord-Peasant World and a Prologue to the Peasant Revolution of 1917. By GEROID TANQUARY ROBINSON. (New York: Longmans Green. 1932. Pp. x, 342. $4.00.)

The theme of Professor Robinson's story is the agrarian evolution of Russia. The author, however, stops short of the Revolution of 1917, which he promises to treat in a subsequent volume and to which the present study is intended to serve as a prologue. Chief emphasis is placed on the modern period of Russian pre-revolutionary history, a period which begins with the emancipation of peasants from serfdom. The earlier agrarian history of Russia is not neglected; but its treatment, although an admirable piece of writing, is too sketchy to be anything but introductory to the later and more substantial section of the book.

Professor Robinson describes the crisis through which the "emancipated" peasant and his former lord passed; the tug-of-war in which they engaged during the first Russian Revolution of 1905-06, seen in retrospect as a dress rehearsal of the greater upheaval ten years later; and he follows with an account of the subsequent steps taken by the czarist government to bolster up the edifice of the old "peasant-landlord" world by the policy of "the wager on the strong," the central feature of which was the determined effort to break up the peasant commune, although its conservation only shortly before was the alpha and omega of the official agrarian policy.

The concluding chapter is devoted to a survey of the position of Russian peasantry on the eve of the World War, recording both the progress which took place during the decade elapsed since the first revolution, and the backwardness of the Russian countryside which was still in evidence when judged by western standards.

Professor Robinson writes with an admirable grasp of the complicated theme of Russian agrarian development, and with a felicity of style which frequently results in flashes of illuminating comment. He has made his own the humanitarian outlook and sympathy towards the

peasant which have characterized the attitude towards agrarian questions of the Russian intelligentsia at its best, avoiding at the same time any excessive idealization of the peasant which the populistically inclined intellectuals often manifested. But, curiously enough, of the intelligentsia's rôle in the history of this question hardly an inkling is given in the book. Such names as Radischev or Chernyshevskii, who fought and suffered for the peasants' cause, are not even mentioned; and Herzen is only brought into the picture by accident and not in the vital rôle which was his. This omission may be traced to what seems to me the major defect of this otherwise meritorious work—its neglect of the movement of social, economic, and historical thought on the agrarian question. More attention to this aspect would, apart from its inherent theoretical interest, have helped to illuminate many of the problems discussed, such as those connected with land tenure, emancipation laws, and other agrarian legislation.

L. Volin

Washington, D.C.

Land and Labour in China. By R. H. Tawney. (New York: Harcourt Brace. 1932. Pp. 207. $2.50.)

Within the compass of this comparatively short book Mr. Tawney has put with extraordinary succinctness and clarity China today as she stands in agriculture, industry, politics, and education. He is able to make within a small space a remarkably comprehensive study, and this he does by eliminating all material unnecessary to the subject in hand. The book is in essence an outline, so skillfully done, however, as to be comprehensive in scope. Only a man trained in acute observation and in keen analysis of facts could deal with such effective simplicity with a complex situation. Needless to say, only Mr. Tawney could present his findings with such grace of style.

Mr. Tawney very properly begins his book on China with agriculture. It has become a truism to say that agriculture is the foundation upon which the Chinese social and economic structure is built; but the chapter entitled "The rural framework" is a sound basis for later chapters on "The problems of the peasantry," "The possibilities of rural progress," "The old industrial order and the new," and the final one on "Politics and education." The conclusions in the chapter on the industrial order are particularly valuable, as China begins on what seems to be a period of industrial change, and as Mr. Tawney knows thoroughly what such changes have meant in England and Europe. The section on social problems brings clearly to the fore an epitome of the issues upon which China must decide today as she faces her new era.

Perhaps one of the best chapters in the book is the last one on "Poli-

tics and education." With characteristic fearlessness and detachment, but with unwavering sympathy, Mr. Tawney probes into certain weaknesses in these phases of Chinese life and uncovers failures as well as commends other endeavors. It is at least a chapter which every young Chinese should read as being the observation and opinion of an unbiased and peculiarly brilliant western mind. The suggestions given are singularly sane and suggestive.

Mr. Tawney's general conclusion on the whole Chinese situation confirms the soundness of understanding upon which this book is built. He says, "The West . . . cannot give to the East what it does not possess. Itself hindered and confused, it can bring to China in the realm of ideas, little but uncertainty and confusion . . . . It is in herself alone, in her own historical culture, rediscovered and reinterpreted in the light of her modern requirements, that China will find the dynamite she needs."

PEARL S. BUCK

Ithaca, New York

The Cultural Significance of Accounts. By D. R. SCOTT. (New York: Holt. 1931. Pp. viii, 316. $2.50.)

Professor Scott has undertaken in this book to present an analysis of the economic organization of society from an accounting point of view. His purpose, as stated in the introduction, is "to present an orientation of accounts." With this idea in mind he is not concerned with any of the techniques or practices of accounting, but limits his discussion entirely to the problem of establishing the status of accounting as an economic institution.

The rôle of accounting in modern society is developed by tracing the changes in cultural patterns from the Middle Ages down to modern times. The first two chapters are given over to an explanation of how he uses both the philosophical approach and the scientific method involving objective analysis. In Chapter 3 he discusses the rise of market control which characterized an individualistic cultural period. Town development was the important factor in the passing of the feudal régime of modern Europe. This development, he states, rested upon commerce and a growth of handicraft industrialism. One feature of the development of the individualistic cultural period was the evolution of a competitive system of economic organization. "The introduction of a machine technology," he asserts, "served to bring down restrictions upon freedom of economic action, increased the scope of the market and gave it a position of dominance it had not before occupied." Chapter 4 is concerned with the disintegration of market control and with it the passing of the individualistic cultural period. The author explains the passing of the market as the chief controlling factor in terms of its

size and complexity. The mere fact of its growth opened the way for a distrust of the efficacy of market control.

Large-scale competitive production has been characterized by elements of instability, both in prices and profits. These factors have been generally ascribed to the management of those in control of industry. Furthermore, the increasing risks of competitive production have led to the formation of capitalistic monopolies which have still further stimulated distrust of the market as a controlling agency. The rapid increase of governmental regulation has been a natural development caused by a change of public opinion as to the working of a free and competitive market. He points out the fact that the business cycle is "the crowning example of instability under a competitive régime."

Following his discussion of the rise and then the disintegration of market control, he inserts a chapter on the decadence of value theory. He states that, "Value theory of the traditional type, including utility and pain cost, once possessed a functional and constructive validity." In the current situation he asserts that it no longer possesses such constructive validity. Professor Scott is of the opinion that a new and different type of value theory must be constructed. This new theory apparently will be based upon a more accurate representation of economic phenomena through statistical and accounting measurements.

Chapter 6 disposes of socialism as a constructive substitute for the disintegrated competitive system. He states that socialism cannot lead to a cultural reorganization because the socialistic philosophy is the same as that which underlies the competitive régime, whereas a new philosophy is necessary for the shaping and fusing of a new system of institutions.

A promising basis for social reconstruction may be found in the scientific point of view. The scientific movement and the development of machine technology are presented as aspects of a cultural development. These constitute the dominant trend of this cultural period. The significance of this movement is indicated in the development of scientific management which he states is "an attempt to apply the objective viewpoint to the problems of production and administration." The period of the purely individualistic management gave rise to certain rules and practices guiding the conduct of business. With the development of corporate management these practices gave rise to mismanagement and even fraudulent actions. Out of the experiences of these situations the author envisages the establishment of new practices constituted to the new environment in which business is conducted.

A chapter on the nature of law and its relation to the market shows how legal concepts have failed to keep pace with the changes occurring in social organization. "Cultural readjustment may be counted upon to

provide both a new social ideal and new legal machinery for the preservation of that ideal."

He finally comes in Chapter 12 to an appraisal of the position of accounting in our present cultural pattern. He says that the market as a controlling device was suited to the needs of a pioneer age. In such a situation it performed the function of control with a measurable degree of efficiency. In a society which requires exact measurement, however, the market must be supplanted by other institutional equipment. This fact has steadily increased the importance of accounts as a controlling device. And yet he states, "Accounts are still dependent upon the market." And he asks, "Is this dependence a necessary and unavoidable relationship? If the market becomes a subordinate institution, will accounts still be subordinate to it?" These questions, he states, remain as yet unanswered.

He indicates that there has been an evolutionary development in accounting coördinate with that in our cultural patterns. Indeed, his definition of accounting is much broader than that encompassed in any of our current technical treatises on the subject. In fact, it includes all statistical measurement in management practice. Yet Professor Scott would not assert that the accountant has attained a position of control in modern industry commensurate with that indicated in his summary chapter. He does leave the reader, however, with the impression that this is the status that will ultimately evolve. If this position is to be attained in the accounting profession, an entirely new outlook would be essential on the part of the practitioner. He would need to be not only a technical accounting specialist in the generally accepted use of that term, but in addition would need to be an economist, a statistician and a philosopher. *Such* a development would entail an entirely new mental attitude. This change in attitude on the part of the accounting profession, regardless of whether or not the profession attains the high position of social control envisaged by the author, would be a desirable end in itself. The social implications of accounting have not generally been recognized by those engaged in practice. The accountant has been used as a medium for the recording of the results of business operation from the point of view of the private corporate manager whose attitudes are controlled by the acquisitive profit motive.

After reading the text, one cannot help recalling the comment Professor Scott made in the Preface concerning the course in orientation which he pursued as a student at the University of Missouri. "In varying ways and phraseology, each speaker during the series presented his subject as occupying the center of the scientific stage and accorded each of the other sciences decidedly subordinate rôles." Perhaps even he has been guilty of similar prejudices in appraising the cultural signifi-

cance of accounts. The book is extremely stimulating and should be of interest to students in all of the various fields of social science.

R. A. STEVENSON

University of Minnesota

NEW BOOKS

BISHOP, A. L. and KELLER, A. G. *Industry and trade: historical and descriptive account of their development in the United States.* (Boston: Ginn. 1932. Pp. vi, 426.)

BOWMAN, I. *The pioneer fringe.* (New York: American Geographical Soc. 1931. Pp. ix, 361. $4.)

JOERG, W. L. G., editor. *Pioneer settlement.* Coöp. stud. by 26 authors. (New York: American Geographical Soc. 1932. Pp. vi, 473. $5.)

These volumes are the first fruits of a program of research into pioneer settlement financed by the Social Science Research Council and the American Geographical Society and endorsed by the National Research Council.

The purpose of the first volume is "to sketch the outlines of a 'science of settlement' to set forth the ideas that have moved men to take such diverse paths, and to provide a description of the different environments in which so many men elect to meet destiny." This purpose the author has fully achieved. The first part of the book deals with the general principles; the second presents regional examples of pioneer settlement, including central and southeastern Oregon, the High Plains, the Edwards Plateau, the central and northern Great Plains, and the Canadian fringe in the Laurentian Highlands, in western Canada, and in the sub-Arctic. Then follow analyses of the prospect for settlement in Australia, southern Africa, Siberia, Mongolia, and in the South American hinterlands. The reader is left with clear concepts of the factors that make for success or failure in land settlement, and how these factors are operative in the several pioneer zones considered. The book serves admirably to coördinate the studies of the second volume, which constitutes a world survey of pioneer problems by competent specialists who have an intimate personal knowledge of the regions they discuss.

Eight chapters of the second volume are devoted to America, three each to South America and Russia, five to Africa, four to China, two to Australia, and one each to Tasmania and New Zealand. The "world survey" thus built up is a series of discreet essays dealing with pioneering by the white races primarily, and, except for the movement of Chinese into Mongolia and Manchuria, leaves out of consideration pioneering by the colored races.

The reader perceives the picture as when one views a mosaic from a distance and yet is conscious of the boundaries of the individual pieces of which it is composed. This picture becomes clearer if the reader has studied the earlier volume on the pioneer fringe. The point of view of the geographer predominates on the whole, although there are few chapters that do not give more than a little consideration to economic and social forces. Indeed, in some, the point of view of the economist or sociologist prevails, and there is a chapter on native labor in southern Africa and one on land and the native in British Africa. It is in these

chapters that we see the transition from pioneer to planter. The reviewer ventures to hope that some future studies will be devoted to the rôle of the large-scale capitalistic undertaking as a force in the settlement of the pioneer fringe in the tropics, and that still others will deal with significant population movements by colored races, such as the pioneering of Japanese in Hokkaido, of Filipinos into unsettled portions of their archipelago, and of Indonesians and Chinese into sparsely occupied lands like Borneo and Sumatra.

CARL L. ALSBERG

BROOKS, R. C. *Russia, the soviet way.* (Chicago: American Library Assoc. 1933. Pp. 44. 50c.)

BRUNNER, E. DES. and KOLB, J. H. *Rural social trends.* (New York: McGraw-Hill. 1933. Pp. 395. $4.)

CUSICK, M. R., compiler. *List of business manuscripts in Baker Library.* (Boston: Baker Library. 1932. Pp. xii, 112.)

A valuable list of source material in the Baker Library for students of economic history. There are 508 entries of manuscripts, many of the entries covering a score or more of manuscript volumes. The material is classified by industries and types of economic activity. Within each industry the collections are arranged chronologically. Accompanying many of the entries is an estimate of the character of the material. Under the topic, "Banking," there are 13 entries, embracing among other items 46 volumes of the Massachusetts Bank (1784-1903), 67 volumes of the Plymouth Bank (1803-1875), and 230 volumes of the Suffolk Bank (1818-1903). Under "Marketing services" are 22 volumes and 15 boxes of Astor papers. Under foreign manuscripts are 8 entries, including the Barberini papers, 81 volumes (1630-1818).

DAVIS, J., editor. *The new Russia between the first and second Five Year Plans.* (New York: John Day. 1933. Pp. xiv, 265. $2.50.)

DAY, C. *Economic development in modern Europe.* (New York: Macmillan. 1933. Pp. xiv, 447. $2.50.)

DOBBERT, G., editor. *Red economics.* (Boston: Houghton Mifflin. 1932. Pp. xxiv, 327. $3.)

This volume covers a wide range of subject-matter and includes among its fifteen authors Walter Duranty, Moscow correspondent of the New York *Times,* William H. Chamberlin, Moscow correspondent of the *Christian Science Monitor,* H. R. Knickerbocker, Berlin correspondent of the New York *Evening Post* and others equally familiar with the Soviet Union. Duranty contributes the introduction, a very sympathetic and intelligent appraisal of the Russian experiment and a chapter on the present and possible future relations of the United States and the U.S.S.R. The book as a whole is informative and gives the impression of authenticity.

FELIX FLÜGEL

EULENBURG, F. *Grossraumwirtschaft und Autarkie.* Kieler Vorträge, No. 37. (Jena: Fischer. 1932. Pp. 74. RM. 2).

To the group of empty catchwords which will not bear the light of critical analysis, Eulenburg would add the slogans "A greater, self-contained Germany," or "A United States of Europe." In spite of present-day efforts toward making many nations more autonomous, of tariff barriers and trade restrictions, the economic interdependence of all peoples grows from

day to day. We may delay but cannot stop this onward movement. It is not in accord with the facts to point to Russia, the British Empire, and the United States of America as examples of areas that are becoming self-sufficient. Russia's future is problematic. Centrifugal forces are at work in the British Empire. The United States finds their export trade vitally necessary.

Europe would face even greater problems. She is over-populated. Eastern Europe could not supply enough agricultural products, and no nation in Europe could succeed in assuming the leadership on a continent of such a polyglot pattern of diverse languages, customs, and traditions. Furthermore, the obstacles to effecting a unified economical transportation system are insuperable.

Even if it were possible to establish for a time such autonomous states, the dynamic forces of life would break down the barriers to world-wide trade and commerce.

WALTER E. ROLOFF

FAY, C. R. *The Corn laws and social England.* (Cambridge, England: Univ. Press. New York: Macmillan. 1932. Pp. x, 223. $2.80.)

———. *Great Britain from Adam Smith to the present day: an economic and social survey.* 3rd ed. (New York: Longmans Green. 1932. Pp. xii, 482. $3.20.)

FOSSATI, A. *Il pensiero e la politica sociale di Camillo Cavour.* (Turin: Fed. Fascista del Commercio della Provincia di Torino. 1932. Pp. 163.)

FRIEDMAN, E. M. *Russia in transition: a business man's appraisal.* (New York: Viking Press. 1932. Pp. xxxiv, 614. $5.)

The author of *Russia in Transition* states in his preface that "the object of the book is to inform and to clarify. It aims to throw light on affairs in Russia rather than to reflect heat of prejudices concerning Russia. It attempts to appraise rather than commend, to judge rather than condemn." Similar declarations of neutrality are not infrequently meaningless verbal gestures or simply bait thrown out to catch the cautious reader. That Mr. Friedman means precisely what he says in his preface gives this volume a position somewhat unique among the many score books which attempt a discussion of the same general subject.

The eighteen chapters into which the volume is divided cover practically every phase of the Russian situation, with—of course—emphasis on economic matters. It is almost encyclopaedic in scope. With the exception of official reports no single volume, to the reviewer's knowledge, contains as much factual material on the organization of agriculture, industry, commerce, and the mechanism of exchange as may be found in the compact pages of this book.

American readers will find Part 5, in which the author discusses the American policy toward Russia, of particular interest. An impressive list of references, an "index to persons," and an exceedingly useful subject index conclude the volume.

FELIX FLÜGEL

GINZBERG, E. *Studies in the economics of the Bible.* (Philadelphia: Jewish Pub. Soc. of America. 1932. Pp. 70.)

In these studies, which compass the land laws of the sabbatical and Jubilee years along with a shorter consideration of the Biblical laws on

the manumission of slaves, the author founds his interpretation upon a close analysis of the Old Testament and rejects as misleading the resort to comparisons with conditions in neighboring countries. Two principal conclusions are reached.

First, that the laws had a theocratic rather than an economic origin; and second, that the laws died from non-observance. The legislation was shaped by religion but it was vetoed by economic facts. Thus land was to lie fallow every seventh year, not to restore its fertility, but on the theory that it was incumbent on the land, since it belonged to the Lord, to observe a Sabbath. The density of population in Palestine, forbidding a year-long lull in production with the threat of famine, nullified the agricultural provisions of the sabbatical year. And even though debt, an economic reason, was the usual cause for enslavement, freedom after seven years was to be granted on the non-economic ground that, since the Lord possessed the right to their lives, permanent control over the slaves would be an usurpation of divine authority on earth. The compromises contained in subsequent legislation indicate that manumission after seven years prejudiced too severely the interests of the slave-holder. In the Jubilee laws, land was placed with slaves under the ownership of the Lord, and a new theory of property in land developed. "There was to be a year of release for the land as well as for the slaves." At the Jubilee year the title to all land that had been sold reverted to the seller. Again the legislation remained a dead letter.

A lively but trained imagination is necessary to interpret these laws from the scant records that remain after two thousand years. That Mr. Ginzberg has a nimble and thoroughly disciplined imagination is apparent in these studies at every step. Through his wide knowledge of the literature, his wary fancy, and his diligence in probing into the problems, this book becomes a useful commentary on ancient Hebraic economic history. But even with highly reputable speculation the fragile nature of such conjectural history gives one an uneasiness in assenting to any conclusion. For instance, in the theory of the manumission of slaves a question arises on the arguments of the theologians. If enslavement for life usurped divine authority on a large scale, would not enslavement for seven years be usurpation on a small scale? Why did they seek to punish the big sins and condone the little sins? Were it motivated by a desire to keep control over men in the hands of the Lord, would not the legislation have been more convincing had it abolished slavery instead of trafficking with the subject of manumission? Perhaps the theologians were opportunists who sought the obtainable; but when they launch into compromises on the iniquities they appear to be faintly out of character.

R. S. Howey

Gregory, W., editor. *List of the serial publications of foreign governments, 1815-1931.* (New York: Wilson. 1932. Pp. 720.)

This volume, which was made possible by a grant from the Laura Spelman Rockefeller Memorial, lists all serial publications of foreign governments for the period 1815-1931, and shows the holdings of each series in the leading libraries of the United States and Canada. Among the more important series listed are the records of legislative bodies, the messages of presidents, the reports of ministries, and the reports and bulletins of

central banks. The Russian section, covering nearly 150 pages, was prepared in the Division of Documents of the Library of Congress.

In view of the difficulties involved, and the new ground which had to be broken in many cases, this is an outstanding piece of work of great significance to all students in the social sciences. Hitherto there has not been available a complete bibliography of foreign government documents. The lack of information as to holdings of American libraries has been a serious handicap to students, and in some cases has rendered almost valueless fragmentary series in particular libraries.

The compilation is by no means perfect or complete, as the editor recognizes. In part this is due to the scant information which many governments have as to their own publications. Apparently a number of publications which are listed as serials by some libraries are not so listed by others. The failure to indicate when documents are also published as part of a larger report fails to give a full picture of the holdings of American libraries. For example, only two libraries are shown as having reports of the Director of the Mint of Chile, and those for only a very few years, whereas these reports are included almost every year as an appendix to the report of the Minister of Finance.

The holdings of American libraries, as listed in this volume, reveal the inadequate attention given in the past to the documents of foreign governments. Especially is this true in the South American field, as even our largest libraries have not complete sets of ministerial reports and parliamentary records. In a number of cases the combined holdings of all our libraries leave considerable gaps in the most important series. The situation with documents of the post-war period is much better.

This volume makes more usable existing material in our libraries, and it should also be a stimulus to the building up of complete series. For the research worker in economics, as well as in allied fields, it is an invaluable reference work.

Frank Whitson Fetter

Hebard, G. R. *The pathbreakers from river to ocean: the story of the Great West from the time of Coronado to the present.* 6th ed. (Glendale, Calif.: Arthur H. Clark Co. 1933. Pp. 312. $2.50.)

Hughes, T. H. *Complete industrial geography.* (New York: Hinds, Hayden and Eldredge. 1932. Pp. v, 255.)

Joerg, W. L. G. *Pioneer settlement.* Coöp. stud. by 26 authors. (New York: American Geographical Soc. 1932. Pp. vi, 473. $5.)

For a review of this volume, refer to Bowman, I., *The Pioneer Fringe.*

Kautzsch, W. *Menschen in Not: kritische Betrachtungen zur Zeitgeschichte, 1911-1932.* (Leipzig: Hartung. 1932. Pp. 352. RM. 3.50.)

Kawakami, K. K. *Manchoukuo, child of conflict.* (New York: Macmillan. 1933. Pp. viii, 311. $2.)

A clear statement of Japan's claims. Contains chapters on trade and finances.

Langer, W. L., and Armstrong, H. F. *Foreign affairs bibliography: a selected and annotated list of books on international relations, 1919-1932.* (New York: Harper, for the Council on Foreign Relations. 1933. Pp. 551. $5.)

Section 3 under the division of "General international relations" covers "Economic factors."

MILLS, F. C. *Economic tendencies in the United States: aspects of pre-war and post-war changes.* (New York: National Bureau of Econ. Research. 1932. Pp. xx, 639. $5.)

MORTARA, G. *Prospettive economiche.* (Milan: Università Bocconi. 1932. Pp. xix, 615. L. 50.)

The high character of this annual was never more clearly shown than in its latest issue. It is not a compilation of statistical information. It is the economist's competent delineation of statistical changes and interpretation of what they signify. For each of many topics—wheat, cotton, shipbuilding, finance, for example—the salient developments are reviewed, partly with reference to particular countries, but mainly with reference to an extensive region or all countries. It is this informed breadth of treatment which will make the volume valuable to many.

R. F. FOERSTER

NEWBIGIN, M. I. *Southern Europe: a regional and economic survey of the Mediterranean lands (Italy, Portugal, Spain, Greece, Albania and Switzerland).* (New York: Dutton. 1933. Pp. xvi, 428. $4.50.)

Though this volume is intended primarily for advanced students of geography, it will be of interest to those investigating the economic resources of the countries covered. There are many sketch maps and bibliographical references.

NEWMAN, J. *The agricultural life of the Jews in Babylonia between the years 200 C. E. and 500 C. E.* (New York: Oxford. 1933. Pp. 227. $2.25.)

NUSSBAUM, F. L. *A history of the economic institutions of modern Europe.* (New York: Crofts. 1933. Pp. xvi, 448. $4.50.)

POLLARD, R. T. *China's foreign relations, 1917-1931.* (New York: Macmillan. 1933. Pp. x, 416. $3.50.)

POWER, E. and POSTAN, M. M., editors. *Studies in English trade in the fifteenth century.* (London: Routledge. New York: Macmillan. 1933. Pp. xx, 435. 21s.)

PRIME, A. C. *The arts and crafts in Philadelphia, Maryland and South Carolina, 1786-1800.* 2nd ser., lim. ed. (Topsfield, Mass.: Wayside Press. 1933. Pp. 349. $5.)

SAKOLSKI, A. M. *The great American land bubble: the amazing story of land-grabbing, speculations and booms from Colonial days to the present time.* (New York: Harper. 1932. Pp. xii, 373. $3.50.)

The author of this volume, an assistant professor of finance in the College of the City of New York, presents for the first time a general account of the history of "land-grabbing," speculation in land and real estate booms in the United States. The story of land speculation is as old as the earliest attempts to colonize the North American continent. While its inception appears early, pre-revolutionary land speculation played a relatively insignificant part in the development of the country. In the decade and a half following the war of independence, land speculation gained considerable momentum, reaching its zenith before the turn of the century. During this period the "wild land virus" appears to have been quite general. In any event, no one of "consequence" in the political life of the nation seems to have escaped its meshes. To demonstrate the truth of this statement Professor Sakolski gives in detail—somewhat in the fashion of the genealogist—the land grabbing records of many notable figures, including Washing-

ton, Benjamin Franklin, Patrick Henry, Robert Morris and a galaxy of other familiar names. The result is a book every page of which is readable, although some of the material may be of little value to the historian. Professor Sakolski has found a formula for removing the dust from the pages of history, a formula similar to the one used by "debunking" biographers. It serves a very definite purpose, but must be recognized for what it is worth. Unfortunately this volume is filled with "verbal tinsel" which distracts from the more significant aspects of the subject. To speak of "wildest wild land manias" seems an unnecessary exaggeration of speech. Moreover, several chapter headings suggest a deliberate attempt to beguile the reader, *e.g.* "California's golden land gambles" (in which the author concerns himself primarily with speculation in sand lots in San Francisco and the land boom in Los Angeles in the eighties) and "Mainstreets" and "Broadways."

How much of the material used in this book was gleaned from original sources is not indicated in the footnote references. Thus, for example, the chapter on California contains references to Henry George, Frank Soulé, T. H. Hittell, John P. Young, H. H. Bancroft and Samuel Bowles, but does not mention the *Alta California* and other early western newspapers.

Omitting details the first ten chapters of this volume are excellent and deserve the attention of the economic historian; the remainder of the book is good journalism. The author hints at an interesting theory regarding the importance of the influence of speculation in land upon our national development, a thesis which he should expand into a book or monograph.

Felix Flügel

Schlier, O. *Aufbau der europäischen Industrie nach dem Kriege.* Schriften "Zum wirtschaftlichen Schicksal Europas," Teil I, Heft 1. *Arbeiten zur europäischen Problematik.* (Leipzig: Junker und Dünnhaupt. Pp. 56. RM. 3.40.)

Spaulding, E. W. *New York in the critical period, 1783-1789.* (New York: Columbia Univ. Press. 1932. Pp. xiii, 334. $4.50.)

We have here a scholarly and readable presentation of new viewpoints of the critical period in the history of New York State. From page to page we see the influence of various historians, particularly Libby, Callender, Beard, and Channing. The chapters on "Business," "The land," "Politics of the landlords," and "The currency" may be specially noted. One of the chief theses is that the critical period was not due to the old constitution but was the result of business conditions which ran true to the form of the business cycle. The strong federal constitution, which is now a bulwark of individualism and so unwieldy as to be a handicap to change, was in a sense the child of the depression. The political contest between Hamilton and Clinton, ending in the victory of the former, is set forth in some detail.

N. S. B. Gras

Vance, R. B. *Human geography of the South: a study in regional resources and human adequacy.* (Chapel Hill: Univ. of North Carolina Press. 1932. Pp. xiv, 596. $4.)

This volume belongs to the University of North Carolina social study

series, which is one of the notable results in recent American university effort. The University of North Carolina has led in the attempt of the South to understand and solve its problems. That institution has a passion for social usefulness, recognizing that its peculiar contribution must be in sound, though not detached, scholarship. The reviewer of a particular volume issuing from the press at Chapel Hill must first salute the laudable aim, and the devotion with which it is being carried forward.

The present book contains much factual information and more opinion about the South as a region. Its virtue and its fault lies in inclusiveness, for it treats of Southern economics, politics, physiography, climate, diet, farm and industrial methods, and many sorts of cultural heritage. In the multiplicity of factors considered, emphasis suffers. One has the feeling that if the author has laid his materials aside for a period, he would have returned to them with better perspective, and would have condensed his account. Dr. Vance looks forward to a regional reconstruction, in which Southern aptitudes will be liberated and coördinated. Perhaps he under-estimates the extent to which the South's future course will be a consequence of national and international development. Influences from without are likely to be more powerful than impulses from within. It is inevitable that assimilation to national practice involve shocks to certain Southern sentiments and loyalties. The bibliography, covering no less than 67 pages, has been compiled with more industry than discrimination, but will be very useful to students of special problems.

BROADUS MITCHELL

WRIGHT, J. K., editor. *New England's prospect: 1933.* (New York: American Geographical Soc. 1933. Pp. viii, 502. $5.)

YOUNG, J. T. *The new American government and its work.* 3rd ed. (New York: Macmillan. 1933. Pp. xx, 1024. $3.50.)

A thorough revision. Twelve chapters have been added, among which may be noted national finances and federal regulation of shipping and labor.

Annali di economia. Vol. X. (Milan: Univ. Bocconi. 1932. Pp. xviii, 528.)

Economic problems of Bengal. Memorandum submitted to the government of Bengal. (Calcutta: Bengal National Chamber of Commerce. 1933. Pp. 35.)

Finance and commerce in federal India. (New York: Oxford. 1932. Pp. 179. $1.50.)

Japan: the thirty-second financial and economic annual, 1932. (Tokyo: Govt. Printing Office. 1932. Pp. 279. Yen 2.)

Agriculture, Mining, Forestry, and Fisheries

NEW BOOKS

ABU STEIT, A. H. *La politique cotonnière de l'Egypte.* (Paris: A. Pedone. 1932. Pp. 271.)

BERCAW, L. O. and COLVIN, E. M., compilers. *Bibliography on the marketing of agricultural products.* U. S. Dept of Agric., misc. pub. no. 150. (Washington: Supt. Docs. 1932. Pp. 351. 20c.)

BLACK, J. D. *Research in marketing of farm products: scope and method.* Bull. no. 7. (New York: Social Science Research Council. 1932. Pp. 221. $1.)

GARSIDE, A. H., editor. *Cotton year book—1932.* (New York: N. Y. Cotton Exchange. Pp. 211.)

GEE, W. *The social economics of agriculture.* (New York: Macmillan. 1932. Pp. x, 696. $3.60.)

Dr. Gee takes the position that agriculture is so important a factor in our national welfare that a course giving at least an introduction to the economic and social aspects of this great industry should be embodied in the curriculum of most of our colleges for purposes of culture and for a more complete equipment of these students for useful citizenship. He realizes the difficulty of attempting to give students a well-rounded notion of the rural phase of the social sciences along with the many requirements in the humanities and the other fields of science.

The six sections into which the work is divided might be designated as follows: First, the setting of the problem; second, its economic implications; third, its social aspects; fourth to sixth, its organization and institutional equipment. The tendency toward repetition exists, but it is not burdensome.

The approach is essentially historical and descriptive, little time being spent in developing theory or setting forth principles in any one of the fields. The work is comprehensive and the material is organized in a very readable way. A statement that "—the present volume is to be viewed as an effort to synthesize the more pertinent thought in the social economic approach to the problems of agriculture" leads one to conclude that the author has found in the social field a development of material better suited to his purpose than that found in the economic field. A disinclination to adhere to the more technical economic and social aspects is frankly admitted.

The source material is carefully indicated and suggestions for further readings at the close of each chapter give an excellent bibliography in connection with the various subjects discussed. The list of questions included with each chapter should be helpful to both student and teacher.

The chief impressions from a review of the book are: First, it is a comprehensive historical and descriptive account of the social and economic behavior of a large group included in the term "rural population." Second, it seems more adequate in its discussion of the social than the economic phases of rural life. Third, it does not attempt to establish theories or derive principles. It might show a more critical attitude toward some of the views expressed in the many quoted passages. Fourth, it is to be commended for the wealth of references assembled and used in connection with the various chapters. Fifth, it is specifically planned for students in institutions which do not offer more than an introductory course. It should in no sense be considered as a substitute for the basic course in either economics or sociology, but following these courses, could be quite useful in giving the student a view of some of the rural aspects of the field.

O. R. JOHNSON

GRAY, L. C. *History of agriculture in the southern United States to 1860.* Vols. I and II. (Washington: Carnegie Institution. 1933. Pp. xix, 567; ix, 571-1086.)

HEYMAN, L. *The new aspect of the oil problem.* Translated from the French ed., rev. and enl. (London: Petroleum Times. 1933. Pp. 112. 3s. 6d.)

HOVER, J. M. and PITTMAN, M. S. *Profitable farming.* (Evanston, Ill.: Row Peterson. 1932. Pp. xii, 412.)

JONES, L. M. *Mineral production of the world, 1924-1929: a statistical summary.* Mineral resources of the U. S., 1930—Part 1. (Washington: Supt. Docs. 1932. Pp. 859-962. 10c.)

Lamor, H. *Le problème national et international du blé.* (Paris: Univ. de Paris. Pp. 159.)

Morgan, O. S., editor. *Agricultural systems of middle Europe: a symposium.* (New York: Macmillan. 1933. Pp. xix, 405. $5.)

Read, T. T. *Our mineral civilization.* (Baltimore: Williams and Wilkins, in coöp. with the Century of Progress Exposition. 1932. Pp. x, 165.)

Rozman, D. *Recreational and forestry uses of land in Massachusetts.* Bull. no. 294. (Amherst: Mass. Agric. Experiment Station. 1933. Pp. 20.)

The agricultural crisis. Vol. II. (Geneva: League of Nations. Boston: World Peace Foundation. 1931. Pp. 113. 80c.)

This volume, published late in 1931, follows Volume I on *The Agricultural Crisis* which was reviewed in the American Economic Review, March, 1932. It consists of two parts:

Part I contains studies on the position of agriculture in Canada, China, Colombia, Egypt, Portugal, Turkey and the Union of Socialist Soviet Republics. Part II contains a series of reports written by experts dealing with price margins or spreads between farm prices and prices paid by consumers for certain agricultural products. Eleven countries, including Germany, Norway and the United States of America, made contributions.

In general, reports in Part I are statements of the agricultural situation through the year 1930; and, with one notable exception, they show deep depression in agriculture. The causes are many, since conditions naturally differ greatly with respect to different products. Export products have suffered greatly, of course, partly because of over-production, chiefly because of low purchasing power in the importing markets. This latter, in turn, not only reduced prices, but diminished the volume of purchases. Products of domestic consumption are suffering less perhaps, and seem to be more susceptible to the process of individual farm readjustments. Endeavors to cheapen the acre costs by mechanization, changes to products more immediately profitable or less unprofitable, assistance from the state, all are being applied in one or more countries. It is worth noting that, as a whole, the reports end with a note of hope and a statement of courage.

The report of the Soviet Union, by M. D. Batourinski of the Lenine Academy, gives a good account of the agricultural policy of this great country, the essential ideas in the program, and a summary of the technical and economic results up to the harvest of 1931. The report is cheerful and confident. It suggests that the agricultural problem is being attacked masterfully as a collective whole, and that the results to the present have demonstrated the superiority of collective over individual action.

Part II draws attention to the importance of the margin between producers' and consumers' prices, and emphasizes the difficulties of making a really satisfactory study of this subject, to say nothing of formulating constructive suggestions for ameliorating the distress caused by the disparity. Detailed comparisons of price relations in different countries are impossible, since the price indexes presented are constructed on different bases. Considered separately, they throw some light on the slough of despondency in which farmers of all countries are struggling.

The student of prices will find in the individual reports valuable material on farm, wholesale and retail prices, chiefly since 1920, but in some instances reaching back to 1913.

Alexander E. Cance

Annual cotton handbook, 1932-33. (New York: Comtelburo. 1933. Pp. 349. $1.)

The Jewish Agricultural Society annual report, 1932. (New York: Jewish Agric. Soc. 1932. Pp. 29.)

Reforesting Pennsylvania's idle land as a self-liquidating public work. Pa. Forest Research Inst. bull. 51. (Harrisburg: State House. 1933. Pp. 16.)

Wheat Studies. Vol. IX, No. 5. *Estimation of end-year world wheat stocks from 1922.* No. 6. *Price relations between July and September wheat futures at Chicago since 1885.* (Stanford Univ., Calif.: Food Research Institute. 1933. Pp. 167-186; 187-238. 50c.; $1.)

World agriculture: an international survey. A report by a study group of members of the Royal Institute of International Affairs. (New York: Oxford Univ. Press. London: Humphrey Milford. 1932. Pp. vi, 314. $3.50.)

World petroleum directory, 1932-33. (New York: Russell Palmer. 1932. Pp. 533. $10.)

Manufacturing Industries

The Philadelphia Upholstery Weaving Industry: A Case Study of a Declining Industry in an Old Manufacturing Center. By C. Canby Balderston and others. (Philadelphia: Univ. of Pennsylvania Press. 1932. Pp. 231. $2.50.)

Can a comparative industrial advantage, once lost, be regained? This is the problem now faced by the upholstery weaving industry in Philadelphia. In the effort to solve it, this thorough investigation has been made, on the request of both the Philadelphia Upholstery Manufacturers' Association and three of the labor unions in the industry, by the Industrial Research Department of the University of Pennsylvania. It is a complete diagnosis, not only analyzing in detail the past and present conditions of the industry, but also recommending definite corrective measures. The technology of the industry is fully analyzed, and an abundance of statistical material is well used.

The picture is presented of an old established industry, most of the present firms having been founded before 1900. A high type of designing and skill in fine-grade work had resulted in an unchallenged superiority of the Philadelphia district in the industry. When the great boom in building began in 1919, however, new firms in search of profits entered the field, chiefly in New Jersey and in the South. This brought about considerable over-expansion, involving design "piracy" and destructive price cutting. Confronted with this new situation, which was aggravated by increasing foreign competition in high grade fabrics, the Philadelphia industry engaged in a struggle which resulted in the flight of local firms to outlying low-cost districts and, after 1925, in the decline of Philadelphia proper. A crisis came when the workers, in 1931, refused a proposed reduction in wages. Arbitration by the Industrial Research Department was finally successful; and during the negotia-

tions the invitation to make an investigation was extended to the Department.

Primarily, the difficulties of the Philadelphia industry were occasioned by high costs of production and by a change in public demand. The most serious disadvantage of the Philadelphia firms is in their relatively high labor costs. Wage rates in the mills of North Carolina, which are entirely free from the restraints of unionism, are approximately one-half those in Philadelphia. In the other districts of the South, and in New Jersey and New England, wage rates fluctuate between these two extremes. North Carolina, possessing the greatest advantage in labor cost, can make tapestries for approximately one-fifth less than can mills in Philadelphia.

The change in consumers' demand during the past decade made this cost differential felt. Cheap and inferior fabrics, appealing to the eye, became popular; and the Philadelphia mills, accustomed to producing high-grade coverings and draperies, saw this new source of volume production going to their competitors and were left stranded with an insufficient specialty business.

The analysis proceeds with a detailed examination of the various aspects of the Philadelphia industry, including special chapters on collective bargaining, earnings and working opportunity, production, marketing, and financial data. Finally, with all results summarized, recommendations are made to the industry in regard to labor, production, design and selling policies, to more careful cost accounting, and to the desirability of combination, all with the end in view of reducing costs and regaining volume production. Increase in productive efficiency, rather than a lower wage scale, is recommended to reduce labor costs.

It is interesting that an unemployment insurance system is urged, although this would seem impracticable in a marginal industry, the reorganization of which calls for sweeping reductions in labor costs; at least in the absence of national standards, such a development would be difficult.

This comprehensive study, the detailed findings of which will be of real interest to students of management, trade unionism, and industrial planning, is the work of five collaborating specialists under the guidance of Dean Joseph H. Willitts and Dr. Willard Hotchkiss. It is quite representative of the large volume of careful and productive research in the industrial field by the Wharton School. The book reveals not only a sure craftsmanship, but also real insight in analyzing and synthesizing baffling problems of industrial readjustment.

FRANCIS D. TYSON

University of Pittsburgh

NEW BOOKS

ALLEN, G. C. *British industries and their organization.* (London and New York: Longmans Green. 1933. Pp. xi, 338. $2.60.)

FILIPETTI, G., DACHTLER, W. and BURNETT, J. *Operating results of manufacturing plants in Minnesota, 1926-1930.* Employment Stabilization Research Inst., vol. i, no. 7. (Minneapolis: Univ. of Minnesota Press. 1932. Pp. 101. $1.)

FITCH, E. M. and CURTISS, R. L. *Industrial trends in Wisconsin.* (Madison: Univ. of Wisconsin. 1933. Pp. 58.)

An effort to determine whether there is a trend toward decentralization of industry. It is concluded that there is no general tendency to expand faster in the smaller cities of the state than in the larger cities.

GLOVER, J. G. and CORNELL, W. B., editors. *The development of American industries: their economic significance.* (New York: Prentice-Hall. 1932. Pp. xxiii, 932. $6.)

HENDERSON, F. *The economic consequences of power production.* (London: Allen and Unwin. 1932. Pp. 220.)

PICKETT, V. G. and VAILE, R. S. *The decline of northwestern flour milling.* (Minneapolis: Univ. of Minnesota Press. 1933. Pp. 83. 75c.)

American Iron and Steel Institute year book, 1932. (New York: American Iron and Steel Inst. 1932. Pp. 317.)

The reorganisation of the electricity supply industry. (London: The Labour Party. 1932. Pp. 21. 2d.)

Transportation and Communication

NEW BOOKS

BAUMANN, H., editor. *Deutscher Reichsbahn-Kalender, 1933.* (Leipzig: Konkordia-Verlag. 1932. Pp. 160. RM. 3.60.)

BRITTON, R. F. *A transportation treaty.* Address before the Automobile Club of Rhode Island and "The Town Criers," at Providence, Rhode Island, February, 1933. (Washington: National Highway Users Conference. 1933. Pp. 8.)

CHEVALIER, W. *Federal highway aid: what it saves for the American taxpayer.* (New York: National Automobile Chamber of Commerce. 1933. Pp. 15.)

DANIELS, W. M. *The price of transportation service: a theory of American railroad rates.* (New York: Harper. 1932. Pp. vi, 86. 75c.)

Professor Daniels has published this small volume with two purposes in mind: (1) as a supplement to various texts and (2) to elicit criticism which may serve to improve his version when it is incorporated in a larger work on railway transportation. As a supplement it admirably fulfills its purpose. It is written with a characteristic clarity of style, a desirable conservatism, and a commendable lack of dogma. While the treatise follows fairly closely the traditional economic classicism usually associated with a theory of transportation rates, the author does not hesitate to take issue with previous writers where a refinement of theories seems desirable (for instance, on pages 33 and 69). There is a distinct contribution to the literature in this field in the wide variety and judicious selection of illustrative material which Professor Daniels has introduced. But perhaps even more helpful is the successful way in which the author has handled the question of "out-of-

pocket" costs in their long and short-run effects. Commendable use is made of I.C.C. statistical material.

The author's second purpose will be less successful than his first since to the unusually satisfactory background of the writer there has been added (as indicated in the prefatory note) the prepublication advice and counsel of an imposing list of transportation authorities. Only the most minor of changes could be suggested.

LESLIE A. BRYAN

GJERSET, K. *Norwegian sailors in American waters: a study in the history of maritime activity on the eastern seaboard.* (Northfield, Minn.: Norwegian-American Hist. Assoc. 1933. Pp. ix, 271. $2.50.)

Contains chapters on the sailing and steamship eras.

HUTCHINSON, B. E. *The automobile's challenge to America's transportation policy.* Cyrus Fogg Brackett lecture at the School of Engineering. (Princeton: Princeton Univ. 1932. Pp. 35.)

MOULTON, H. G., and associates. *The American transportation problem.* (Washington: Brookings Institution. 1933. Pp. lxix, 915. $3.)

PARMELEE, J. H. *A review of railway operations in 1932.* Reprinted from *Railway Age* for February 4, 1933, figures revised to March 6, 1933. (Washington: Bureau of Railway Economics. 1933. Pp. 36.)

WITTE, B. *Eisenbahn und Staat: ein Vergleich der europäischen und nordamerikanischen Eisenbahnorganisationen in ihrem Verhältnis zum Staat.* Weltwirtschaftliches Archiv, Ergänzungsheft 4. (Jena: Fischer. 1932. Pp. xiii, 272. RM. 8.)

Interstate Commerce Commission: 46th annual report, December 1, 1932. (Washington: Supt. Docs. 1932. Pp. iv, 269. $1.)

Motor truck freight transportation: characteristics and costs of motor-truck operation by common carriers and contract haulers in intercity service. U. S. Dept. of Commerce, domestic commerce ser. no. 66. (Washington: Supt. Docs. 1932. Pp. 59. 10c.)

National Automobile Chamber of Commerce: presentation to the National Transportation Committee, Hon. Calvin Coolidge, Chairman. (New York: National Automobile Chamber of Commerce. 1932. Pp. 63.)

Regulation and taxation of highway transportation: recommendations of Joint Committee of Railroads and Highway Users. (New York: Committee on Pub. Rel. of the Eastern Railroads. 1933. Pp. 36.)

Statistics of railways in the United States: forty-fifth annual report for the year ended December 31, 1931, including also selected data relating to other common carriers subject to the Interstate Commerce act for the year 1931. (Washington: Supt. Docs. 1932. Pp. S-132, 282. $1.50.)

Where freight rates and passenger fares go: a popular statement of the income and expenditures, Class I American railroads. (New York: Committee on Pub. Rel. of the Eastern Railroads. 1933.)

Trade, Commerce, and Commercial Crises

NEW BOOKS

ADAMS, A. B. *Trend of business, 1922-1932: causes of the depression and economic reforms necessary to establish a business equilibrium.* (New York and London: Harper. 1932. Pp. x, 93. 75c.)

This is an interesting and readable small volume in the current economic problems series, designed for the general reader. Dean Adams reviews the facts of the period briefly but adequately, and the careful reader will learn much that he should know to discuss intelligently current conditions. The war background is reviewed and the inflation of the period brought out clearly, showing how present difficulties have their origin in that inflation. After the war, in the period from 1920 to 1923, we did not achieve a sufficient deflation, with the result that maladjustments continued through a period of artificial prosperity engendered by a dangerous inflation of bank credit. Dean Adams finds the chief cause of world troubles in this American inflation. The final chapters deal with legislation to prevent a recurrence of a depression, and with the probable course of recovery from the present depression. He thinks that we have definitely moved to a lower price, profit, and income level, and that a new permanent equilibrium can be achieved only by an adequate deflationary policy, which is likely to continue over several years.

One hesitates to criticize a small book which achieves so well its limited purpose, and which contains so much that is sound; but Dean Adams develops an underconsumption theory of depression which is only half true, and is sure to mislead the general reader. Lack of consumers' purchasing power is a characteristic of the boom period of the business cycle; but, when a depression begins, the situation is reversed and too large a share of the national income is going into consumption goods, leaving too little for investment. Thus in England for eighteen months after this depression began, the making and sale of consumption goods not only did not decrease but actually increased; and it is well known that retail sales were well maintained in all countries during 1930, while an alarming decline in construction and the volume of producers' goods set in. It is unfortunate that Dr. Adams did not seize the opportunity to popularize some of the leading ideas of Hayek, Robbins, Strigl and others in Europe, who have subjected consumption in the trade cycle to an illuminating analysis.

Herbert F. Fraser

Akerman, J. *Economic forecast and reality, 1928-1932.* (Stockholm: Nordiska Bokhandeln. 1933. Pp. 46.)

"The situation was correctly analysed when serious warnings of an impending crisis were given during the years 1928-29 and when it was strongly urged in 1929-32 that a rapid process of liquidation should be carried through, this demand being formulated in the programme for an economic policy that seems now to be the only possible alternative. The situation was incorrectly analysed in the summer of 1930, and to a certain extent in the summer of 1931 also, when a comparatively optimistic forecast was presented, although the process of liquidation and readjustment was declared to be not yet accomplished. It may be noted however that half a year after each of these dates a halt in the decline, and even some increase, did in fact take place in world production."

Bloch, V. *Krise und Einkommen.* (Vienna: Springer. Pp. 93.)

Chalmers, H. *Foreign tariffs and commercial policies during 1932.* U. S. Dept of Commerce, trade inf. bull. no. 812. (Washington: Supt. Docs. 1933. Pp. 19. 5c.)

A continuation of the previous analyses made by Mr. Chalmers. Sum-

marizes movements in restricting imports, foreign exchange controls, import quotas, Ottawa agreements, export subsidies.

FREDERICK, J. H. *The development of American commerce.* (New York: Appleton. 1932. Pp. xx, 390. $3.)

Any attempt to compress the story of the development of American commerce and commercial policy, domestic and foreign, necessitates summary treatment and the omission of many factors which are essential to a full picture. The author has, within the limitations set by the size of the book, presented a well balanced, readable and up-to-date analysis. No claim is made for originality of the material. It is drawn from the more detailed works of previous students and from governmental publications—"the task has been one of selection and condensation." Opinions on the success of American commercial policy or on the policy which present-day conditions render advisable are not offered.

The most valuable portion of the book for those already familiar with the history of American economic development is the analysis of trade developments since the World War period, which take up substantially the latter half of the discussion. These pages analyze the relative importance of the branches of foreign trade by commodities and classes on the basis of the government reports, the relation of foreign merchandise trade to the altered conditions in the national balance of payments and the later measures taken to encourage the expansion of the national merchant marine.

The volume is an excellent brief survey which gives the student and general reader a background of fact for opinions on the problems which now confront us as to public policy in relation to commerce, especially our foreign commerce and shipping activities. CHESTER LLOYD JONES

GAVIT, B. C. *The commerce clause of the United States Constitution.* (Bloomington, Ind.: Principio Press. 1932. Pp. liii, 568.)

GREIFF, W. *Der Methodenwandel der europäischen Handelspolitik während des Krisenjahres, 1931.* Schriften "Zum wirtschaftlichen Schicksal Europas," Teil I, Heft 2. (Leipzig: Junker und Dünnhaupt. Pp. viii, 107. RM. 5.50.)

HARWOOD, E. C. *Cause and control of the business cycle.* (Boston: Financial Pub. Co. 1932. Pp. xii, 165. $2.)

The author develops an *index of inflation* for which he claims important forecasting value. This *index* is a ratio between the investment-type assets of the banks and savings. When this index rises, the characteristic developments in the economic world are declared to be as follows: "The usual process of acquiring investment-type assets in excess of the liabilities justifying them is for the banks to lend more on securities and real estate than they should (that is, more than they should so long as they fail to liquidate other investments in order to obtain the funds for such purposes)."

The author further describes the associations characteristic of an inflation as follows: "The fact that investments exceed savings during a boom signifies that the production of capital goods exceeds the normal rate. . . . All during the period of extreme prosperity, the banks have been making new investments at a faster rate than the growth in savings has warranted. The total of investment-type assets has, therefore, steadily increased relatively to the savings justifying them."

These quotations are sufficient to indicate that the author's theory is a variant of the many theories about under-saving and over-saving. He differs sharply, however, from the theories of Keynes and of Foster and Catchings with reference to the savings factor.

His statistical verification constitutes an interesting first approximation but is not likely to carry as full conviction to the outside observer as it apparently does to the author.

In fact, his presentation is marred somewhat by overstatement. There are many matters which he believes he has demonstrated beyond the shadow of a doubt. His chapter on "The acid test" attempts to prove that his past forecasts, by use of the new *index*, have been 100 per cent correct. As one reads some of these forecasts, they seem to be so ambiguous that anyone reading them at the time would not have been any too positive as to what the forecast actually was. Retrospectively, the author reads into such forecasts a meaning which makes a good score in hindsight. This defect is especially apparent in some rather optimistic forecasts made at the end of 1931 which have not turned out quite as favorably as the author obviously assumed at the time the book was written.

Probably the author is on the track of an hypothesis which will repay further experimentation. It is doubtful, however, whether his alleged verification thus far is adequate.

LIONEL D. EDIE

HO, P. Y. *China's foreign trade for the first half-year, 1932.* Report submitted to the Minister of Industry. (Nanking: Bureau of Foreign Trade. 1932. Pp. 52.)

ROORBACH, G. B. *Problems in foreign trade.* (New York: McGraw-Hill. 1933. Pp. xii, 512. $5.)

STUCKEN, R. *Die Konjunkturen im Wirtschaftsleben.* (Jena: Fischer. 1932. Pp. xii, 180. RM. 9.)

Dr. Stucken stresses the fact that no two cycles of business are alike. Each one is *sui generis* both so far as its causes and its results are concerned. The experiences we are passing through at the present time would seem to lend strength to this assertion. Stucken's discussion is entirely analytical in nature. No attempt is made to reinforce the conclusions by statistical material. He deprecates to some extent the work of those agencies which give only statistical materials on the business cycle without a proper interpretation or evaluation of the data which are presented.

Chapter 4, Division III, which deals with the cyclical disturbances of the war and post-war periods, constitutes the best part of the book. For the post-war period Stucken emphasizes the fact that in spite of the expansion of short-time credits, particularly in the United States, the creation of real capital proceeded very slowly. In this respect he agrees with B. M. Anderson who pointed out repeatedly that this was happening during the post-war period. Stucken traces somewhat in detail the policy of our federal reserve banks during this period. While their objectives were not always attained, he believes that valuable experience has been gathered which may be of service in further attempts to modify the severity of the business cycle.

WILLIAM F. HAUHART

Bengal National Chamber of Commerce: report of the Committee for the year 1931. (Calcutta: Bengal Nat. Chamber of Commerce. 1932.)

Review of world trade, 1931 and 1932 (first half). (Geneva: League of Nations. Boston: World Peace Foundation. 1932. Pp. 76. 50c.)

Accounting, Business Methods, Investments and the Exchanges

Price Bases Inquiry: The Basing Point Formula and Cement Prices. Report of the FEDERAL TRADE COMMISSION. (Washington: Supt. Docs. 1932. Pp. xxi, 218. 30c.)

This study of basing point delivered prices in the cement industry is the first fruit of a survey initiated by the Federal Trade Commission in 1927 into the methods employed by industry in making prices, the reasons for adopting these methods, and their effect upon prices and competitive conditions. A preliminary investigation covering more than 3,500 firms in about 340 industries disclosed that 44 per cent sold exclusively on a shipping-point basis (with freight borne by the buyer), 18 per cent exclusively on a delivered price basis (with freight absorbed in whole or in part by the seller), and 38 per cent on both bases. These figures unfortunately do not indicate the *volume* of business handled under the different methods. The delivered prices were found to be of two types: (1) uniform prices for the entire country or for zones, on the postage-stamp principle, and (2) basing point prices, with quotations for each delivery point made up of the sum of the base price at the nearest basing point plus freight to destination. The cement industry was selected for special study because it so strikingly illustrated the use of *multiple* basing points.

In the cement industry the prices quoted by a single manufacturer rise progressively with distance from his mill (assuming that it is a basing point mill) until a point is reached at which the delivered price from another basing mill, plus freight, is no greater. Beyond that point, however, quotations are made on the base price of the "competing" mill, and the difference in freight absorbed. This absorption results in a wide variation in *net* prices per barrel at the shipping mill from maximum on nearby sales to a minimum on distant shipments into the "natural" territory of the "competitor." The system makes possible a vast amount of cross-freighting, the burden of which in the cement industry in 1927 amounted to about 24.3 cents per barrel, or an estimated aggregate of over $40,000,000. This constitutes not only an economic waste but an unjustifiable discrimination against nearby customers, forcing them to bear the cost of distant shipments. The usual argument that such shipments reduce overhead to the advantage of local customers by increasing volume is vitiated by evidence that the basing point system forces each mill to share its most profitable local market with distant competitors. Volume gained on distant sales is lost on nearby sales.

The conclusion is that the basing point price system is incompatible with active price competition. The Commission carefully analyzes the argument advanced in the Pittsburgh Plus case, and in behalf of the cement industry, that the identity of prices fixed by different manufacturers for common delivery points is evidence of competition, since there can be but one price in a market at a given time under competition. This assumes that each *delivery point* is a market, with a price fixed by the cost of obtaining the marginal unit from the basing point mill. Countless instances were found, however, of sales by one company at or beyond another basing point, which cannot be reconciled with this assumption. In the case of non-basing mills, which charge customers at their very doors the price prevailing at the nearest basing point plus mythical freight, the Commission found no case in which the production of the non-basing mill was less than the normal consumption of the "natural" territory within which it enjoyed the protective advantage of a shorter haul. In many cases they were in fact making sales which cross-hauled the basing mills, with heavy freight absorptions.

The non-competitive character of the basing point system in the cement industry was likewise indicated by the insensitivity of prices to varying demand down to 1931, when base prices collapsed under extreme pressure. The willingness of individual concerns to stay in the system is explained partly by the merger process, partly by the possibility of forcing recalcitrants into line by making their mills basing points with very low base prices.

In this report the Commission devotes itself entirely to the economic issues, leaving the legal questions to one side. In its analysis of the basing point price system it follows the main lines of the theoretical work already done by Commons, Fetter and Ripley in the Pittsburgh Plus case. In fact this study may fairly be regarded as a direct fruit of that investigation. In the handling of the economic issues there is a clarity of analysis and a lack of fumbling which is thoroughly refreshing. The report is easily one of the best yet put out by the Commission, and suggests the value of the service which the economic division of the Commission may perform. It is to be hoped that reduced appropriations will not prevent the publication of further findings in the price bases inquiry.

Archibald M. McIsaac

Princeton University

Government Competition with Private Enterprise. Report of the Special Committee Appointed to Investigate Government Competition with Private Enterprise, House of Representatives, H. R. No. 1985. (Washington: Supt. Docs. 1933. Pp. 253.)

The testimony of disgruntled merchants and manufacturers before

the Shannon Committee fills 37 typed volumes and represents enterprises ranging from mucilage manufacture to railroads, all objecting to undue federal interference with their right to make a profit. Obviously a review of the Committee's summary report must deal with the attitude with which the Committee received them and must fail to represent fairly some industries which appeared before the committee.

A comprehensive investigation of government competition with private enterprise involves such issues as the proper rôle of government in society, the relation of private profit-seeking activity in various fields to public welfare, the effectiveness of public competition as a means of regulating private business, the basis for reasonable classification of such social groups as are to be specially favored with state aid or specially penalized by state interference, the relative virtue of economizing public property and promoting private industry when, after an emergency like the World War, the government's extra equipment may be either used or junked. A thoughtful study of such issues might produce something like a philosophy of public policy under capitalism.

The Shannon Committee has undertaken substantially nothing of this task, partly because its appropriation was only $13,500, and partly because it evidently accepts the natural right of business men to profit wherever a profit may conceivably be obtained. Government restriction of the field of profit making is conceived as justified only by some special emergency, with the burden of proof upon the government. The expansion of government functions is accounted for by the efforts of bureaucrats to hold their jobs and enlarge their power; but the desire of business men to reduce these functions is interpreted, not as a similarly narrow greed, but as the natural protest of people oppressed.

From this point of view any stick will do to beat a dog with. Some government activities are attacked because service by competitive bidders would be cheaper. Other services (not merely to the general public for hire, but also by one government department to another) are attacked because they are so cheap that private business cannot compete. This cheapness is interpreted as undue price cutting based upon inadequate cost accounts, at the expense of the taxpayers. Evidently correct governmental cost accounting would assess depreciation against the government property on the same basis that it is assessed in competitive private business, without regard to the fact that the government is free from many of the risks of obsolescence and unaccountably changing demand prevalent in private business. It is held further that the government ought to charge itself taxes upon its own property, evidently not to the extent to which tax receipts are reduced by the substitution of government for private enterprise, but to the extent to which private enterprise itself is taxed. If the function of a government cost accounting system is to obscure any strategic advantage which may

lie in public activity, such a system is justified; but upon any other basis one cannot readily apply the concept of private competitive cost to public business.

Moreover, the field within which the Shannon Committee raises these issues is substantially the field within which angry business men are agitating for their lost profits. Yet the argument, in so far as it is good at all, applies to a much wider range of federal and state functions. State universities are in competition with privately endowed universities, many of which are now engaged in a hard struggle to balance their budgets. If the real estate and buildings of a state university campus were devoted to private business, these properties would be a source of taxes. Moreover, the buildings and their equipment presumably depreciate. Not only are tax and depreciation costs ignored, but even the direct costs of instruction are thrown upon the shoulders of the poor taxpayer. In excluding other considerations than the loss of income to the private universities and the heightened tax burden, this argument reproduces the logic of the Shannon Committee in the cases of the federal barge line, the parcel post system, or the production of medical supplies.

There is an occasional ray of light even in this report. The discussion of deficiency appropriations as a means of encouraging an underestimate of governmental costs, though brief, is discerning. At several points, particularly in the analysis of the Federal Farm Board, issues of public policy are considered.

Corwin D. Edwards

New York University

The Distribution of Consumable Goods. By Dorothea Braithwaite and S. P. Dobbs. (London: Routledge. 1932. Pp. xiii, 295. 10s. 6d.)

This is a work in political economy—not "economics"—and for that reason among others, every American teacher of marketing should study it. No American book in this field has maintained so close a hookup with the pure theory, and none has so clearly avoided the fallacy that what makes profits for the individual entrepreneur is therefore desirable for the trade or properly to be encouraged by society.

That this, the first English book in a field blanketed with American works for two decades past, was to supply a need of the American reader seems not to have occurred to the authors, who address themselves entirely to the British audience, and cite American authors and American mercantile experience freely. The editor's introduction states: "In the matter of contact between the business man and the economist, England is still a long way behind the United States." This modest disclaimer and the almost timid deference to the more pretentious American writings, make all the more remarkable the truth that these Englishmen are

now making their contact by applying the broadest principles of political economy critically, to a field in which their American predecessors have all too readily ignored those principles in order to describe, without criticism, transient conditions as they are.

This work is new and constructive in that it makes its analyses with thought to modern collectivist, as well as to primitive and to modern capitalistic, systems. It contains excellent discussions of the conditions under which different types of middlemen can be eliminated with other than only appearances of simplification—this in connection with a good treatment of coöperatives, their accomplishments, possibilities and limitations, in the broadest and simplest terms.

It is a little thing, perhaps, but where else is there a marketing book that briefly and clearly sets forth, and then abides by the consequences of, the greater fluctuation of demand for capital goods as against consumption goods? These authors also have the Englishman's appreciation of history. One gets from their treatise a conception of the origins and evolution (and hence the true nature) of the conditions and processes studied. We in America had one such work, superior to this, more authoritative, and still badly needed; but it was published at an unfavorable moment by a house that failed, and received little notice and is practically unknown. Until some strong publisher revives that monumental treatise and makes it known to distributors and available to teachers, this abbreviated English work will fill a genuine need.

Those seeking the English point of view, or glimpses of English conditions and problems, will have interest in, and at times derive amusement from, this little book. Hedging, they say, is infrequent in England. They come to America to study it. The wages fund doctrine, always to be found where social progress is under check or when markets are declining, crops up here in a new form. And once we read: "The person in charge of the book department of a large store is often nowadays a university graduate who has to be remunerated accordingly. . . ." Can this still be true—even in England?

Probably the most interesting discussions are those dealing with advertising and related problems. That advertising with all its abuses may actually contribute to raise the standards of living, seems never to occur to these authors; and their otherwise competent and discriminating treatment suffers somewhat from the oversight. Too much time is spent on borderline cases: "Is the cost of the container production or distribution?" Should market research be placed under "Information" or under "Advertisement?"

The theory is that of Alfred Marshall—nothing later—but it is firmly and logically applied. The organization of materials is good, the diction excellent, the mode of analysis long needed. JOHN H. SHERMAN

Oak Park, Illinois

Price Fixing in New Zealand. By William B. Sutch. Stud. in hist., econ. and public law, no. 371. (New York: Columbia Univ. Press. 1932. Pp. 164. $3.00.)

Price fixing and commodity control in a small agricultural country such as New Zealand is comparatively simple. During most of the war period and through a few years after the war, many of the commodities produced in New Zealand were subject to price regulation and other supply or marketing control. This study describes briefly control measures, and their effects and effectiveness. No new theories or principles are indicated by the study, but the reader will find in it many interesting illustrations of how economic forces operate under certain control measures.

Price fixing and control in New Zealand were undertaken principally for the protection of consumers within the country in a period when the foreign demand was increasing rapidly, and the prices of all commodities were rising rapidly.

In the case of sugar, the total supply was being imported and controlled by one refining company. The government intervened to fix the price and insure an equitable distribution of supplies. The price was held constant through the period 1915-1919, allowed to advance in 1920, and then reduced. The control was carried out without expense to the government, and the price was held below world parity. The author believes that sugar control was the most successful of the control measures undertaken by the government.

The experience with the control of butter is full of illustrations of the problems involved in the case of a commodity produced for export by a large number of producers. The New Zealand Board of Trade was authorized to regulate the price in the local markets for New Zealand consumers; and the first problem was how to compensate the producers for the local market at a fixed maximum price below export parity. In 1916 New Zealand was producing about 30,000 tons of butter, of which 20,000 were exported. Beginning in 1916, the exportation was prohibited except under license; and a licensing fee was charged to provide a fund for returning to producers for the local market what was necessary to equalize their returns with those producing for export. The dairy factories opposed the collection of license fees for the purpose of equalizing prices. Producers naturally objected to the deductions from export parity. In 1919 the New Zealand government assumed the liability of equalizing the profits on local butter sales with those on exports, by a direct appropriation or a bounty. Later the price to consumers was raised to avoid depleting the funds available for equalizing the prices, but remained below the export parity price. Thus in the period 1919-1921 all the producers received the export parity price while New Zea-

land consumers paid something less and the government supplied the balance.

Wheat control was likewise undertaken primarily to protect the consumer. Since wheat was not produced in sufficient quantities to meet domestic requirements, the government's problem included purchases of wheat from other countries. First an attempt was made to exercise control mainly by establishing maximum prices. The government was slow to act in fixing the price, and then fixed it below what had been the actual market price. Farmers refused to sell. Special inducements or premiums were paid in the form of exorbitant prices for sacks or for other commodities associated with wheat. Foreign wheat purchased for sale in the country cost the government more than the price which had been fixed as a maximum for domestic wheat. Prices were raised. An error in an estimate of wheat production caused a good deal of difficulty. Price fixing and export control were abandoned for a short period. Later the government, through the Board of Trade, resumed price fixing and guaranteed the price for the next season's crop. Finally the government assumed complete control of the marketing and distribution of wheat supplies. But the government did not succeed in maintaining production. While the prices of wheat and supplies were being managed largely for the benefit of consumers, the prices of other agricultural products were more favorable to the producer and there was a tendency to neglect wheat production. The flour milling industry profited most from the control measures.

Another interesting experience was that of timber control. Unusual foreign demands threatened to deplete the New Zealand timber supplies at the expense of domestic needs. To meet the situation, the exports of some timbers were prohibited and a diminishing export scale set up for others. The prices of timber were fixed considerably below export value. Export licenses were issued only to mills that were in operation when control was inaugurated, and new mills were not allowed to export. The problem of determining prices that would maintain an essential supply, as well as prevent the producer from taking advantage of an unusual demand, was recognized, and the administration was successful in solving this problem, so that production increased materially under control.

The author also describes the efforts to control the prices of meat and milk.

The New Zealand experience confirms observations that in price fixing, consideration must be given to alternative opportunities; and that to maintain production or the domestic supplies of a commodity, it is necessary to fix prices high enough to maintain a balance in production, or to increase it where an increase is necessary. It does not follow, as demonstrated in the case of timber, that it is necessary to allow a free

market at the highest possible prices. Fixing the maximum prices below what the abnormally extreme demands would bring may be justified, either or both on the ground of conserving resources and of protecting domestic consumers.

In conclusion, it may be said that the author considers that on the whole, price fixing and marketing control in New Zealand were fairly successful as war-time measures. He does not believe that control is justifiable as a permanent peace policy except possibly in monopolistic industries. The best course for the government to pursue as a long-time policy is the use of its powers of investigation and publicity to prevent the exploitation of the consumer, and, we would add, the producer.

O. C. Stine

U. S. Department of Agriculture

NEW BOOKS

Beal, H. S. *Price policies in the capital goods industry during a period of business depression.* Industrial marketing ser., 23. (New York: American Manag. Assoc. 1933. Pp. 20. 75c.)

Bente, H. *Kapitalabwertung und Wirtschaftskrise.* (Tübingen: Mohr. 1932. Pp. 24. RM. 1.)

This pamphlet discusses proposals for the general scaling down of debts as a road to a quicker adjustment to the lower price level. Such a procedure is contrasted on the one hand with the elimination of the weakest debtors by bankruptcy and on the other hand to the readjustment of debts and asset values by inflation or, to use a newly coined phrase, reflation. Dr. Bente argues that a depression in the present phase of capitalism does not guarantee the survival of the fittest, as would be expected when free competition was still prevalent. The growing importance of government owned or at least government controlled enterprises tends to keep concerns alive, the elimination of which otherwise might have provided breathing space for the most efficient producers.

The scaling down of debts, according to Dr. Bente, is only expressing the real meaning of the debt contract, because why should the creditors enjoy the windfall profits of deflation? This interpretation of the debt contract in terms of purchasing power is hardly, however, accepted by the legal profession. And if bonds are scaled down, what is to happen to the deposits and contracts of the banks, savings banks and insurance companies that have invested in such bonds? And finally, how is one to find the proper level to which to adjust debts, and how can one be sure that the next boom period does not restore the price level of 1928?

The pamphlet is the reprint of a talk given in December, 1931. Dr. Bente's proposals were then indicative of a highly original mind; today the originality of these ideas has become somewhat stale, but no progress appears to have been made as to their replacement by something better.

Robert Weidenhammer

Converse, P. D. *Business mortality of Illinois retail stores from 1925 to 1930.* Bull. no. 41. (Urbana: Univ. of Illinois Bur. of Business Res. 1932. Pp. 39.)

CRAGG, A. *Understanding investment.* (New York: Dodd Mead. 1933. Pp. xix, 346. $2.)

DODGE, C. J. *Estate administration and accounting.* (Brooklyn: Standard Text Press. 1932. Pp. 456. $5.50.)

DUDDY, E. A. and REVZAN, D. A. *The distribution of livestock from the Chicago market, 1924-29.* (Chicago: Univ. of Chicago School of Business. 1932. Pp. xii, 102. $1.)

A continuation of the series of studies relating to the economic areas of supply and distribution tributary to Chicago as a central market. It is noted that the system of livestock marketing is being subjected to forces which may change it permanently from a centralized to a decentralized system.

GEORGE, E. B., and others. *Aids to retail grocery profits.* Domestic commerce ser. 71. (Washington: Supt. Docs. 1932. Pp. 71. 10c.)

HAMLIN, I. M. and WINAKOR, A. H. *Department store food service.* Bull. no. 46. (Urbana: Univ. of Illinois Bur. of Business Research. 1933. Pp. 37.)

HOTCHKISS, G. B. *An outline of advertising.* (New York: Macmillan. 1933. Pp. xxiv, 509. $3.)

HOXSEY, J. M. B. *Writing down assets and writing off losses.* Address to the Massachusetts Soc. of Cert. Pub. Accountants, in Boston, Feb. 23, 1933. (New York: N. Y. Stock Exchange. 1933. Pp. 24.)

ISAAC, M. *Conduct of mortgage foreclosures during bankruptcy.* (New York: American Bankruptcy Rev. 1932. Pp. 48. $1.)

JONES, F. M. *Survey of a retail trading area.* Bull. no. 44. (Urbana: Univ. of Illinois Bur. of Business Research. 1932. Pp. 32.)

KIRSHMAN, J. E. *Principles of investment.* 2nd ed. (New York: McGraw-Hill. 1933. Pp. xviii, 776. $5.)

LEWIS, H. T. *Industrial purchasing.* (New York: Prentice-Hall.)

LINDNER, E. *Review of the economic councils in the different countries of the world.* Prepared for the Economic Committee of the League of Nations. (Geneva: League of Nations. 1932. Pp. 105. 75c.)

MACLEOD, J. H. *The trend toward expansion of free service in industrial sales.* Industrial marketing ser., 22. (New York: American Manag. Assoc. 1933. Pp. 24. 75c.)

NEIFELD, N. R. *The personal finance business* (New York: Harper. 1933. Pp. 508. $5.)

SADD, V. and WILLIAMS, R. T. *Causes of commercial bankruptcies.* Domestic commerce ser. no. 69. (Washington: Supt. Docs. 1932. Pp. 56. 10c.)

STAUBER, B. R. *The farm real estate situation, 1931-32.* U. S. Dept. of Agric. circ. no. 261. (Washington: Supt. Docs. 1933. Pp. 50. 5c.)

TEAD, O. and METCALF, H. C. *Personnel administration: its principles and practice.* 3rd ed., thoroughly rev. (New York: McGraw-Hill. 1933. Pp. xiv, 519. $4.)

The first edition appeared in 1920. No better appraisal of the purpose of this revision can be made than by quoting the author's own words in the preface of this new edition.

"Our own estimate is—and the present edition is written from this point of view—that the following matters require most urgent attention and constructive thinking. There is, first, the increasing importance attached to providing reasonable security of employment and livelihood for all. Second, there is wide interest in fostering better education and training in industry not merely for improved workmanship but for encouraging the de-

velopment of all-round and more effective personalities. Third, there is wider and wider acknowledgment that the principle of the representation of the different interests involved in deliberations on policy should be applied in industrial and corporate government. Fourth, more and more people are willing to admit that the support of the rank and file in helping to realize the objectives of a corporation can be expected only when those objectives are broad, sound, and inclusive enough to make it likely that the workers will feel safe and benefited by espousing them. Finally, if industry wants genuine coöperation from all members of a working group, it has now become plain that a price must be paid—the price of admitting them as more nearly equal partners in the conduct of the enterprise. How that fact of partnership shall be given concrete expression is one of the most provocative issues of our generation."

Towner, R. H. *The future of corporate suretyship.* Lect. 18 of the suretyship course, 1932-1933. (New York: Insurance Soc. of N.Y. 1933. Pp. 21.)

Van Benthuysen, A. S. *Newspaper organization and accounting.* (New York: Prentice-Hall. $10.)

Whitney, R. *Security investors and the future.* Address delivered before the Cleveland Chamber of Commerce, February 28, 1933. (New York: N. Y. Stock Exchange. 1933. Pp. 11.)

Winkelman, B. F. *Ten years of Wall Street.* (Philadelphia: Winston. 1932. Pp. vi, 381.)

Wray, C. H. *Real estate subdividing in New Jersey, with special reference to Middlesex County.* Bull. no. 6. (New Brunswick: Rutgers Univ. Bur. of Econ. and Business Research. 1932. Pp. 178.)

The Dow, Jones averages, with an explanation of the Dow theory; the Barron's averages. 6th ed. (New York: Barron's. 1932. Pp. 174.)

The ethical problems of modern accountancy. Lectures delivered in 1932 on the William A. Vawter Foundation on Business Ethics, Northwestern Univ. School of Commerce. (New York: Ronald. 1933. Pp. v, 152. $2.)

New York Stock Exchange year book, 1931-1932. (New York: N. Y. Stock Exchange. 1932. Pp. 175.)

A convenient summary of the activities of the New York Stock Exchange.

Capital and Capitalistic Organization

Kartellpolitik: Eine Analytische Untersuchung. By S. Tschierschky. (Berlin: Carl Heymann. 1930. Pp. 156. RM. 10.50.)

This volume is a sequence to the author's *Kartellorganisation* in which he described the technique of organization and management of cartels. This treatise on "cartel policies" does not concern itself with the *effects* that cartel actions have on the economic life of a nation but represents, as the author claims, the first attempt of a comprehensive discussion of the general aspects of cartel activities. While there are plenty of monographs available on the records of specific cartels and while there is an abundance of literature on the alleged economic advantages and dangers of cartels (an abundance of literature but rather

a scarcity of sound conclusions), Dr. Tschierschky has provided a much needed supplement.

The book may be helpful only to a student of cartel problems who is already thoroughly familiar with the intricacies of the German law. Even those, however, who have acquired a familiarity with the German law codifications, may wonder whether this treatise has not been over-burdened with attempts at too much "scientific spirit." Less frequent efforts of obtaining definitions that may meet all possible objections and a simpler method of presentation of what is readily conceded as an enormously difficult subject would have been desirable. On the other hand, an index and a classification of literature used should have proved helpful features.

These critical remarks might not have been made were it not for the fact that Dr. S. Tschierschky, the editor of the *Kartellrundschau* can probably be rated as Germany's foremost cartel-expert and that, therefore, his writings are simply indispensable.

The book starts in the typical German manner with the definition of terms. Cartels are defined as "organizations of independent entrepreneurs (concerns) of the same industry with the purpose of securing and enhancing the profits of their members through regulation of the market." This definition thus represents a compromise between the all-inclusive form that embraces all concerted action of independent concerns—and would therefore include the legal activities of the American trade associations—and Professor Liefmann's well-known definition, which restricts the conception of cartels to such associations that regulate the market through *monopolistic control*. The reviewer is well aware that certain German trade associations that call themselves cartels (and are called so by others), have not a monopolistic control of the market. But, as has been maintained previously in these pages, the popular usage of a term should not induce the scholar to give up clear-cut conceptions that are simply indispensable for fruitful, theoretical reasoning. The reviewer, therefore, regrets that Dr. Tschierschky has abandoned in this book Professor Liefmann's definition which he had formerly adopted. The explanation that the monopolistic control of the market is only the method or organization, while the securing and enhancing of the profits of the members is the real purpose of cartels, does not seem a sufficient justification for giving up a definition that alone brought out clearly the salient difference between the typical German cartel and the American trade association.

After having thus sacrificed the "monopoly criterion" at the very start, Dr. Tschierschky nevertheless devotes the last two chapters to its evaluation. When here he comes to the conclusion that the efficiency of cartel policies does not necessarily show a close correlation to the degree of monopolistic control of the market and that, as a matter

of fact, the reverse seems to be true, namely that the lesser the chances of a monopolistic control of the market the more the cartel will strive to enhance the profits of its members through the fostering of their efficiency. Dr. Tschierschky comes closer than ever to agree with the reviewer.[1]

The discussion of the policies of cartels emphasizes the dualism of their battlefronts. The constant fight with the market (consumers, dealers and outsiders) often represents less of a problem than the control of inside problems, namely the supervision of the policies of the members. While price policies make up the main "outside issue," it is cost policies that account for the "inside struggle."

By far the most effective instrument of cartel policies is, of course, represented by the minimum price agreement. It seems to the reviewer that the real cartel problem centers in the question of whether cartels should practice a policy of fluctuating prices, *i.e.* of adjusting prices to the effective demand or whether they should maintain prices stable in an attempt to thus stabilize business as a whole. It is astonishing to find that Dr. Tschierschky touches this question only on one page of his book (page 70), in spite of the fact that he recognizes that "here lies perhaps the most important key to the whole cartel problem, which still has to be considered as totally unsolved." Dr. Tschierschky then proceeds to give his opinion, namely that from a private point of view cartels would do better to attempt at stabilizing prices. The next sentence, however, hedges this statement by asserting that from a social point of view the use of a policy of fluctuating prices might also be justified.

The reviewer agrees with Dr. Tschierschky that right here lies the crucial problem of cartel policies, but he sees no justification for hedging one's opinion on it. Since a cartel has only the alternative of either stabilizing prices or production and since the changes in the effective demand bring about violent fluctuations in production if not counteracted by price adjustments, it should be perfectly clear that any attempt at stabilization of sales or profits or employment has to use a policy of fluctuating prices. Dr. Tschierschky calls attention to the fact (page 79) that in theory as well as practice the dominant opinion holds that stabilization of prices is the main purpose as well as the main advantage of cartels. The reviewer hopes that this untenable contention which has for nearly two generations muddled the minds of cartel "experts" will soon be abandoned.

As to the social control of cartels, the author feels with some degree of justification that here lies the most urgent problem of governmental influence on economic forces. The existing method of dealing with the

[1] Compare the reviewer's comments in the *American Economic Review*, September, 1929, pp. 472-475 and September, 1930, pp. 514-518.

question as practised in this country and recently adopted in Norway and planned in Poland and Czechoslovakia are deemed to present steps in the right direction. The advice to proceed "fortiter in re, suaviter in modo" is certainly a most valuable conclusion of the book, because it reflects the experience of a lifetime in active "cartel work."

ROBERT WEIDENHAMMER

University of Minnesota

NEW BOOKS

FISHER, C. O. *Some aspects of commission regulation of public utilities.* (Ann Arbor, Mich.: Edward Bros. 1933. Pp. ii, 100.)

FRIED, F. *Das Ende des Kapitalismus.* (Jena: Eugen Diederichs Verlag. 1931. Pp. 226. RM. 4.80.)

Fried contends that a proper understanding of recent economic history must lead to the conclusion that capitalism is everywhere doomed. No Marxian, he does not develop his argument within the limits of a theory of the evolution of economic society, nor does he indulge in far-reaching prophecy. For the most part, he limits himself to an exposition of the plight of capitalism in post-war Germany. Fried maintains that the German currency inflation and subsequent economic and social difficulties have given a great impetus towards the proletarization of the middle class and to the further concentration of economic control in the hands of a narrow plutocracy. Thus, the manifestations of a dying capitalism—chronic unemployment, the decline of competition, the end of free trade, the bankruptcy of business leadership—are much more evident in Germany than in England or France, where the bourgeois economy still has reserve strength. He holds that the older world-wide capitalistic economy must give way to autarchous, national, state-controlled economies. The study throws some interesting sidelights upon German economic society, as, for instance, the character of leading industrial and financial personalities, the size of their fortunes, and the manner in which they reached their prominent positions. Fried's argument, presented in emphatic journalistic style, is not altogether convincing. Nevertheless his interpretation of recent German history is significant, inasmuch as it reflects the convictions of many of his countrymen.

CARL T. SCHMIDT

KIXMILLER, W. *Can business build a great age?* (New York: Macmillan. 1933. Pp. 320.)

A defense of capitalism. "The trouble with the world is not the use of capitalism but its misuse. The trouble with the world is not laissez faire but too much interference with 'supply and demand.' The trouble with the world is not too little government but too much government. The trouble with the world is not too little planning but too much artificial control."

This is a stimulating essay on the energizing services of capitalism in the upbuilding of our economic structure. The author recognizes its defects and pleads for a better capitalism.

MOSHER, W. E. and CRAWFORD, F. G. *Public utility regulation.* (New York: Harper. 1933. Pp. xi, 125. $1.)

O'LEARY, P. M. *Corporate enterprise in modern economic life.* (New York: Harper. 1933. Pp. xi, 125. $1.)

Ruggles, C. O. ***Problems in public utility economics and management.*** (New York: McGraw-Hill. 1933. Pp. xv, 737. $6.)

Tschierschky, S. *Review of the new legislation concerning economic agreements (cartels, etc.) in Germany and Hungary.* Prepared for the Economic Committee. (Geneva: League of Nations. Boston: World Peace Foundation. 1932. Pp. 52. 40c.)

Wagenführ, H. *Konjunktur und Kartelle.* (Berlin: Carl Heymanns Verlag. 1932. Pp. 62. RM. 4.50.)

Needless to say, the subject of this pamphlet, namely, *Cartels and Trade Fluctuations,* deserves the greatest attention of economists. The monograph under review is the first one to tackle this special phase of monopoly theory. The author has compiled a great deal of valuable statistical material on the behavior of free and cartellized prices during the trade cycle, but his conception of theoretical analysis is somewhat immature. The first chapter is two and a half pages long and bears the profound title: "The trade cycle and the cartellized (gebundene) economy." All we learn, however, is that there are over 2,400 cartels in Germany and that the prices of 56,000 commodities are affected by these cartels. There is an element of humor in the fact that this chapter carries as a motto this quotation from F. Y. Edgeworth: "In the régime of competition, as Mill or someone has said, things are always seeking their level. It is not so in the régime of monopoly."

Were it not for this mixture of pretentiousness and superficiality, one could greet this contribution to such a vital and unexplored field with more satisfaction.

Robert Weidenhammer

Labor and Labor Organizations

NEW BOOKS

Altmeyer, A. J. *The Industrial Commission of Wisconsin: a case study in labor law administration.* (Madison: Univ. of Wisconsin. 1932. Pp. xiii, 324.)

Carlton, F. T. *Labor problems.* (Boston: Heath. 1933. Pp. viii, 458. $2.60.)

By the author of *History and Problems of Organized Labor,* published in 1911. Stresses the need of analyzing practices and ideals of labor and employer organizations.

Chadwick, L. S. *Balanced employment.* (New York: Macmillan. 1933. Pp. viii, 234. $2.)

A plea for shorter working hours in order to secure a balancing of employment. The author is president of the Perfection Stove Company of Cleveland.

Cheyney, A. S., editor. *The International Labor Organization.* Vol. 166. (Philadelphia: American Acad. of Pol. and Soc. Sci. 1933. Pp. vii, 239. $2.50.)

This contains a collection of 23 articles, with appendices, relating to the International Labor Organization. These deal with its origin, international relations in the organization, the organization in action, and the relations of the United States to the organization.

Christenson, C. L. *Collective bargaining in Chicago: 1929-30. A study of*

the economic significance of the industrial location of trade-unionism. (Chicago: Univ. of Chicago Press. 1933. Pp. xv, 396. $3.)

Dahlberg, A. *Jobs, machines, and capitalism.* (New York: Macmillan. 1932. Pp. xviii, 252. $3.)

The author's starting point is that capitalism has not had a fair trial, that except in a war it has never been permitted to operate under conditions of labor scarcity, and that given such a condition the capitalistic institution would be almost an ideal economy. The problem, therefore, is how to alter the distribution of income for the purpose of getting more purchasing power into the hands of the masses, so as to curtail or end unemployment, without endangering the system of property rights and the freedom of private enterprise.

His hypothesis is that the evils of our modern capitalism are rooted in the failure to shorten the hours of labor with every labor-saving device introduced and so create by our own wills a scarcity of labor-hours, instead of continuing to operate under a chronic scarcity of jobs and business opportunities. In fact, he continues, our long-day labor philosophy compels the business leaders to concentrate their efforts on more materialistic methods and ends, on new wants, on high-pressure salesmanship, and on new methods of influencing human behavior. Under the system, there is no other alternative. He proposes then to compel the capitalist system to function under a chronic scarcity of labor, on the theory that if more labor energy is diverted to leisure, the bargaining power of the masses would automatically increase, thus forcing a change in the distribution and use of national wealth and income. "As long as we retain a system of society running on self-interest, wherein the employer is not greatly responsible for the employment or health of the worker, society should arrange that the supply of workers is always less than the demand for them. The social creation of a labor scarcity is the only way in which a capitalistic society can make it to the employer's economic interest to treat the laborer well. No other way is likely to work successfully."

Philosophically speaking, we need a new attitude toward work—to regard work as a preliminary to living and not as an end in itself. But, practically, the author's appeal is to enlightened Big Business, to save the capitalistic economy from disruption by modifying its own traditional canons and by supporting all schemes for assuring a labor scarcity. He has coördinated into one whole the major elements of our working economic order, picturing schematically the economic process itself—the flow of labor energy, raw materials, end products, buying power, and cultural forces; he has thus aimed to show how the present system works and how it could be made to function under another type of business management which would favor the mass of consumers. And, finally, it shall be the work of the federal government to maintain by legislative compulsion the maximum working day necessary under the labor-scarcity economy. The political method of social betterment through group ownership and control seems at first glance the easiest method of reform, but it possesses the sociological danger of "an authoritarian molding of culture," as well as the dangers of disorganization and civil war. On the other hand, capitalism has already received credit for the shorter working day, and consequently no new ideology is necessary to support the principle of labor scarcity, while the intervention of the state would not make our capitalism into socialism. In the author's opinion, the fate of the proposal to restrict labor

hours by federal statutory enactment is most certainly up to the managers. "Some day it will be up to them to choose between giving up their self-injurious political allegiance to the interests of owners, or submitting to some form of iron-fisted Fascist or Communist economy which denies them liberty."

EUGENE M. KAYDEN

GRINSTEAD, L. H. *The operations of the Ohio wage garnishment law.* (Columbus: Ohio State Univ. Bur. of Business Research. 1933. Pp. x, 105. 50c.)

HAWKINS, E. D. *Dismissal compensation plans in 80 companies.* Prel. rep. (Princeton: Princeton Univ. Industrial Relations Sec. 1932. Pp. 14.)

HERSEY, R. B. *Workers' emotions in shop and home.* (Philadelphia: Univ. of Pennsylvania Press. 1932. Pp. xviii, 441. $3.)

This book is a pioneer attempt to discover what factors in the work itself, the physical condition of the worker and the extra-plant environment aid in bringing about a worker's satisfactory adjustment to his job and the resulting efficiency. Slightly more than half the book is devoted to individual cases and their significance, while the last part of the book is given over to certain general questions, such as the relation between emotions and productivity, the zest for activity and physical condition, and the possibility of recurrent emotional fluctuations in men. A final chapter is devoted to inferences and suggestions.

Only 29 skilled workers, in good physical condition, were studied intensively over a period of 48 weeks, during which the men were actually interviewed two-thirds of that time. Such a limited number of cases would not, in the opinion of Professor Hersey, warrant the drawing of unqualified generalizations (p. 10).

The important methods of securing the primary data were observation, laboratory measurement and interview, with particular attention on the latter. The 29 men were interviewed four times a day when an attempt was made to determine the worker's emotional status and to secure an account of his important activities, with emphasis on the objective, mental, physiological and, as mentioned, emotional behavior. The sources of emotional crises in the workers, arising either from the work itself, the physical conditions of the worker or outside causes were studied. Professor Hersey lists at least 22 possible emotions which a worker might have, although he admits that "no cut and dried definition of 'emotions' was attempted" (p. 7). The worker had to be relied upon fairly heavily in order to determine the particular emotion which happened to dominate at a specific time.

It would seem to the reviewer a difficult task for the worker to determine with any degree of accuracy which among 22 emotional states he happened to be in. It might be possible for a worker to distinguish between widely divergent emotions such as happy or worried, but it would seem a rather difficult task to distinguish between such emotional states as neutral plus and coöperative, especially in view of the absence of any carefully defined units. This attempt at objective measurement of a subjective condition mainly by a person other than the interviewer, leaves considerable latitude to the imagination of the worker. Not only must we accept the worker's judgment, with certain checks on the part of the interviewer, but in comparing one worker with another there is the implication of common uniform units. Because individuals are different, we may suppose there

will be differences in the judgment of the workers in regard to their current emotional behavior. This is especially important since the author develops a rating scale of emotions in Chapter 16. In view of the description of "the shop" where the study was made, Professor Hersey is to be congratulated if he promoted, as he believes he did, a real desire on the part of the men to tell the truth.

If the method of determining the primary data is accepted, Professor Hersey has given us much to think about, particularly his discovery of recurrent emotional fluctuations in all the individuals investigated.

T. L. Norton

Kokkalis, A. *Das Problem der Arbeitslosigkeit unter Berücksichtigung der wirtschaftlichen Entwicklung Deutschlands.* Nürnberger Beiträge zu den Wirtschafts und Socialwissenschaften, Heft 30. (Nürnberg: Hochschulbuchhandlung Krische. 1932. Pp. 77. RM. 1.60.)

Whoever expects to find here a comprehensive treatment of the problem of unemployment in Germany will be disappointed. The author devotes one-third of the book to support of the argument that there can be no real technological unemployment. After his elaboration of obvious facts and generally accepted principles he startles us with an original definition of "rationalization," namely, that it includes all management of human energy, all public and private control of production.

The chief factors contributing to Germany's unemployment problem are:

(a) The unequal distribution of the world's gold supply.

(b) The burden of reparations.

(c) The serious fluctuations in the inflow and outflow of foreign short-term capital.

Germany's chief difficulty lies then in her need of liquid capital; and she should in the years 1928, 1929 have lowered the price level, particularly by lowering salaries and wages. Kokkalis holds that thus the same amount of money might have satisfied all needs in doubling the volume of goods produced and thereby taking up the slack of unemployment.

Walter E. Roloff

Lasorsa, G. *La statistica dei salari industriali in Italia.* Scuola di Scienze Politiche e Sociali della R. Università di Padova. (Padua: A. Milani. 1931. Pp. viii, 97. L. 15.)

Monographs on and studies in the movements of real wages are relatively common; so, too, are studies in standards of living and welfare evaluations of wages. But, examinations of the economic adequacy of wages in terms of calorific requirements of the worker's basic metabolism plus the energy requirements of the occupation, are uncommon. The method is likely to provide a fertile field of debate and the results or conclusions to be examined critically.

Dr. Lasorsa has made such an examination; he has analyzed sustenance requirements as the first step to an understanding and interpretation of real wages; his results are likely to be questioned by those who refuse to accept mere physical welfare as a proper basis for wage payments. Dr. Lasorsa has also crowded into this brief monograph an analysis of the variations of money wages and real wages from 1914 to 1929, making

comparisons as between different occupations, as between different industries and as between different industrial centers of Italy. A perusal of the monograph leads one to the conclusion that it represents a summary of work done rather than a complete exposition. Accepting the data, one is forced to the inevitable conclusion that real wages have fluctuated with an unbelievable violence in Italy during the period. Thus the chart on page 87 shows real wages in some lines of employment fluctuating by as much as 30 per cent on four different occasions between 1920 and 1928.

American students will be interested in the methods used in the study; they may not find the factual data to be important since these relate to internal conditions in Italy.

FLOYD F. BURTCHETT

McISAAC, A. M. *The Order of Railroad Telegraphers: a study in trade unionism and collective bargaining.* (Princeton: Princeton Univ. Press. 1933. Pp. xx, 284. $2.50.)

A factual, monographic study, running back to the eighties and describing the organization and growth of the Order to 1930. Part 2 deals with the structure of the organization, methods of collective bargaining, experience with mediation and arbitration. Part 3, with policies in determining the wage schedule, hours of labor, hiring seniority and discharge. It is of special interest as it relates to the unionization of semi white-collar workers. There is a bibliography of five pages.

RICHARDSON, J. H. *Industrial relations in Great Britain.* (London: P. S. King, for the International Labour Office. 1933. Pp. xi, 272. $1.)

TAYLOR, P. S. *Mexican labor in the United States: migration statistics, II and III.* Pub. in econ., vol. xii, nos. 1 and 2. (Berkeley: Univ. of California Press. 1933. Pp. 10; 11-22.)

VALK, W. L. *Werkverschaffing is mogelijk en dringend noodzakelijk.* (The Hague: Van Stockum and Zoon. 1932. Pp. 44.)

WIGGS, K. I. *Unemployment in Germany since the war.* (London: P. S. King. 1933. Pp. ix, 216. 10s. 6d.)

WILSON, W. *Forced labor in the United States.* (New York: International Pubs. 1933. Pp. 192. $1.50.)

Chapters on convict labor, peonage, forced labor in the colonies and in the Soviet Union.

Abolition of fee-charging employment agencies. Rep. 1, 17th sess. (Geneva: International Labour Office. 1933. Pp. 141.)

California State Unemployment Commission: report and recommendations. (Sacramento: State House. 1932. Pp. 800.)

This report, submitted to Governor Rolph in November, 1932, is in many respects a notable document. It covers every important phase of the unemployment problem. The seven parts describe: (1) *"Unemployment—its causes and effects"*; (2) *"Unemployment relief and state aid"*; (3) *"Regularization of employment"*; (4) *"Advance planning and public works"*; (5) *"Unemployment insurance and unemployment reserves and compensation"* and (6) *"Related problems,"* largely a discussion of public and private employment offices and national and state economic planning. The sections on unemployment insurance in Europe, written by Barbara Nachtrieb Armstrong, are an excellent summary by an expert in the field.

Other co-authors include Charles A. Gulick, Jr., who contributed the sections on the "pros and cons" of unemployment insurance and unemployment reserves and compensation, Dr. Emily H. Huntington, who wrote the section on unemployment relief in Alameda County, Mrs. Pauline Young and a staff of assistants under the direction of Dr. Louis Bloch, secretary and director of the surveys.

The Commission specifically recommends: (1) state emergency unemployment relief; (2) the enactment of legislation to provide for a five-day week and six-hour day for all employees engaged upon the construction of public works (whether undertaken by the state directly or by contract) and a five-day week for all employees "engaged in state business"; (3) spreading work in all industries in times of "extraordinary unemployment"; (4) compulsory unemployment reserves and compensation (with contributions from employees and employers); (5) advance planning and "long-range budgeting of public works"; (6) establishment of a state economic council, the latter to "provide for a continuous study and interpretation of all problems relating to unemployment, production and consumption."

While the recommendations of the commission are all significant, the underlying assumption that the present depression is not dissimilar from others recorded in the past century is open to question.

Felix Flügel

Child labor facts. Pub. no. 366. (New York: National Child Labor Committee. 1932. Pp. 31. 25c.)

Hours of work and unemployment: report of the preparatory conference, 10-25 January, 1933. (Geneva: International Labour Office. 1933. Pp. 31.)

Hours and work and unemployment: report to the preparatory conference, January, 1933. (Geneva: International Labour Office. 1933. Pp. viii, 198.)

International Labour Conference: sixteenth session, Geneva, 1932, record of proceedings. (Geneva: International Labour Office. 1932. Pp. lxiii, 1003.)

International unemployment: a study of fluctuations in employment and unemployment in several countries, 1910-1930. (The Hague and New York: International Industrial Relations Institute. 1932. Pp. iii, 496. $2.50.)

This series of papers on the extent of unemployment and to some degree on the fluctuations of workers' incomes in the chief industrial countries of the world were contributed to the 1931 World Social Economic Congress in Amsterdam. Dr. William A. Berridge is the author of articles on employment and the income of labor in the United States and Canada, and Dr. F. C. Benham on fluctuations of unemployment in Australia, Great Britain and France. Drs. Willebrandt and Isenberg contribute a study on unemployment in Germany and Miss Kingsbury and Miss Fairchild one on pre-war and Soviet Russia. All of the articles are well done and of historical interest. They are intended to lay the factual basis for a later prescription of remedies, but they do not of themselves offer many suggestions as to what should be done.

Paul H. Douglas

A review of the current literature of industrial relations and an industrial relations reference library. Library bull. no. 11. (New York: Industrial Relations Counselors. 1933. Pp. iii, 38, mimeographed.)

Stabilization of employment: a symposium held under the auspices of the American Association for the Advancement of Science. (Bloomington, Ind.: Principia Press. $3.50.)

Wages and hours of labour in Canada, 1930, 1931 and 1932. Suppl. to *The Labour Gazette,* Jan., 1933. (Ottawa: H. M. Stationary Office. 1933. Pp. 71.)

Money, Prices, Credit, and Banking

The Art of Central Banking. By R. G. Hawtrey. (London: Longmans Green. 1932. Pp. xii, 464. $5.00.)

Börsenkredit, Industriekredit, und Kapitalbildung. By Fritz Machlup. (Vienna: Springer. 1931. Pp. xi, 220. RM. 12.)

These two books are worthy of careful study by everyone who wishes to keep abreast of current thought concerning the inter-relations of money, credit, prices, and the business cycle. Each of them embodies what may loosely be called a monetary explanation of business fluctuations, but there is little agreement between them, either as to the fundamental causal relationships or as to what constitutes a sound social policy.

Hawtrey's book is one of the best expositions of the body of doctrine which explains the cycle through the direct influence of changes in the quantity of circulating medium on prices, the lag of certain price changes behind others, the consequent fluctuations in profits, and the repercussions of these profit fluctuations on business enterprise. This is the line of thought which is now probably most influential in British and American economic circles.

Machlup, on the other hand, represents ably the school of thought which descends from Böhm-Bawerk through Wicksell, and is currently embodied in the work of the Austrian and Scandinavian schools (barring Cassel, whose later writings seem to place him in the group first mentioned). In this approach the key to the fluctuations of business activity is sought, not in the price movements, but in changes in the rate of capital formation and in the types of capital formed which result from the creation of "capital disposal" at a rate different from the rate of saving of the community. An expansion of the circulating medium, according to this line of analysis, results in a lowering of the money rate for funds below the rate necessary to call forth an increasing volume of genuine saving, and thereby leads to the initiation of production processes which cannot be carried through because there is not enough saving to maintain the flow of funds to the capital market when the temporary stimulus is exhausted. The readjustment to less capitalistic methods of production involves an interval of disorganization and un-

employment of resources. The price-profit school regards the money rate as an instrument for effecting the creation of such a rate of funds as will stabilize prices and thereby stabilize production; the neo-Wicksellians reverse the sequence and argue that the important thing is the effect of the money supply on the interest rate.

Both books are closely reasoned, clearly written, compact and readable. The authors present their respective doctrines with great certainty, paying little attention to rival theories, though much to minor variant views of fellow believers in the same body of general doctrine. Neither writer makes much use of historical and statistical evidence to buttress his views. Machlup, true to the Viennese tradition, cites practically no factual data; and Hawtrey's use of history, as will be shown below, adds little to the cogency of his argument.

The Art of Central Banking brings together eight essays on closely related monetary topics, most of them reprints or revisions of papers either prepared for the Macmillan Committee or published through other channels within the last three years. Of the two essays that are entirely new, however, the one which gives its title to the book comprises one-third of the volume.

Readers of Hawtrey's earlier works will find this volume consistent in the main with his previous findings. He believes that the business cycle is purely a monetary phenomenon. The function of the central bank is to maintain equilibrium, meaning by equilibrium such a volume of consumers' income as is consistent with full employment at existing wage rates. By sufficiently vigorous action, a central bank whose obligations constitute the money of the country can always bring consumers' income into the equilibrium position. Once equilibrium is attained, stability of a price index (ideally an index of the factors of production; for practical purposes an expurgated wholesale price index) is a satisfactory criterion; when equilibrium has been lost, however, it is better to bring the prices and consumers' income into harmony with nominal wage rates, than to stabilize prices and wait for wage rates to adjust themselves.

The volume loses little in unity from the diversity of origin of its components. The only evidence of a change in the author's views within the period of composition relates to the American open-market policy of 1930. In Chapter 8, written in July, 1930, the author states approvingly that the federal reserve banks raised their open-market assets to a high figure in the autumn of 1929 and kept them there to the date of writing. But in Chapters 2 and 4 this same action is severely criticized as tardy and half-hearted. (Average holdings of government securities rose from 154 million in October, to 446 million in December, and New York rediscount rates were twice lowered in November.)

The volume reflects, I think, an unconscious tendency on the author's part to assume his history—at least that part of it which deals with the United States—on the basis of his theory, without careful scrutiny of the record. Thus we are told (page 67) that credit expansion was started in 1922 by open-market purchases and checked in 1923 by open-market sales; whereas in fact the peak of open-market holdings was reached in May of 1922 and fully one-half of the open-market selling had been done by October, 1922—that is, before there was any recognition of a danger that credit expansion was going too far. Again we are told (page 67):

> In the summer of 1924 the credit contraction was found to be more severe than had been contemplated. The commodity price level had fallen, production declined, all symptoms of depression appeared. Measures of credit relaxation were again resorted to. Open-market purchases were effected on a larger scale than in 1922, and the rediscount rate was reduced from $4\frac{1}{2}$ to 3 per cent. The depression was quickly dissipated, the commodity price level rose, and production revived.

In fact, the contraction of open-market holdings stopped in the autumn of 1923, and during the entire spring of 1924 holdings were expanded very rapidly. By August, holdings were within 50 million of their peak. Thus the revival lagged fully nine months behind the initiation of open market purchases, and approximately coincided with their termination.

The discussion of the period 1925-27 (page 68) is highly confused. No reference is made to the raising of discount rates and the curtailment of open-market holdings in 1925-26, nor is the reader told that 1925, and especially 1926, were years of unprecedentedly high industrial profits. Not 1925-27, but 1927, was a period of mild depression. Again on page 69 we are told that a divergence of credit policy between New York and London, running through 1925-27, resulted in enormous exports of gold from the United States. The fact is not brought out that during most of this period the United States had a net import of gold, the outflow occurring after the reversal of credit policy in the United States in 1927. In fact, the gold stock was bigger at all times in 1926 and 1927 than it was when England resumed the gold standard. On page 77 a restrictive policy is stated to have been adopted in the summer of 1928. In fact it was adopted in the autumn of 1927, so that the interval between the adoption of the policy and the results imputed to it was not merely "several months," but more than a year and a half.

On page 209 the policy of stabilization pursued by the reserve banks in 1922-27 is described as a policy of price stabilization. But reserve authorities, including Governor Strong, repeatedly repudiated price stabilization as the standard of credit policy. According to Hawtrey's reasoning, stabilization of prices is practically identical with stabiliza-

tion of business activity. But this assumption hardly justifies imputation of a price stabilization policy to those who sought to stabilize business activity in the belief that it was something totally different from price stabilization[1]—a conviction which the contrary movements of prices and production in 1925-26 seemed to verify.

Finally, it is, I think, a serious error to link up the initiation of the restrictive policy of 1928-29 with the death of Governor Strong (pages 64, 209). The policy of credit restriction was initiated nearly a year before Strong's death, and apparently his dissatisfaction with the policy, like that of his successors in the control of the New York bank, involved solely a disagreement as to the technique of operation. New York favored continued high rediscount rates and open-market sales, while Washington favored "direct pressure" designed to keep money cheap for other purposes, while cutting it off from the stock exchange.

The principal subject of Machlup's book is the effect of stock exchange speculation on the money market; but this topic leads him into a general discussion of the relations between bank credit and economic equilibrium. The first five chapters present an exhaustive analysis of the effect on the money market of changes in stock prices and in the volume of turnover of the exchange, and of consequent changes in the rate of issuance of new securities. This section, in the reviewer's judgment, disposes definitely of the fallacy, which is more prevalent in America than in Europe, of the "absorption" of liquid resources in the financing of a stock market boom. High stock prices may stimulate investment by encouraging security issuance, but the requirements of the market itself are vanishingly small. (On this point, as on few others, Hawtrey and Machlup are in agreement.) The only concession to the believers in absorption is in the statement that funds may be delayed in their transit from their source (in savings or in bank expansion) by passing through several successive speculators' hands.[2]

The most interesting point in the latter part of the book is an attack on the doctrine that seasonal fluctuations in the bank rate can be ironed out by central banking operations (or for that matter by loans of funds

[1] Moreover, Hawtrey's concession that ideally price stability should be gauged by an index of those prices which are not affected by technological progress would seem to imply that sound policy might result in business stability without stability of general prices, in just such a period as 1925-29. Incidentally, prices during this whole period were actually less stable than most indexes of business conditions, and no more stable than in pre-war periods like 1902-06 and 1908-14, which were similarly free from major crises.

[2] The point could be stated more clearly by defining the absorption of credit in terms of the amount of bank reserves required to support the additional bank deposits which are carried idle because of the boom. The reviewer agrees with Dr. Machlup that no such increased balances are likely to be carried by professional speculators; he sees no reason to believe that they are carried by non-professionals either. It is the bear speculators who carry idle bank balances and so "absorb credit."

between business houses) without the danger of upsetting the equilibrium between the investment market and the volume of savings.

The basic doctrines of the economic school which Machlup represents are still new to most American economists, having come to their attention chiefly through recently published writings of Hayek and Haberler. While the reviewer prefers to suspend judgment on their adequacy as an explanation of the business cycle, he feels certain that at the least they will command increasing attention and respect as they become more familiar.

Charles O. Hardy

Brookings Institution

Minor Papers on the Currency Question, 1809-1823. By David Ricardo. Edited by Jacob H. Hollander. (Baltimore: Johns Hopkins Press. 1932. Pp. ix, 231. $3.00.)

This book presents much valuable new Ricardian material from papers in possession of a great-grandson of Ricardo. It vindicates Ricardo with reference to his alleged inactivity after the *Bullion Report* appeared and to his alleged lack of acquaintance with economic writings. In spite of the lack of recognition in the *Bullion Report*, Ricardo did not fail as a controversialist to make effective defense of his ideas. Also Ricardo, by the references and the notes he took, is shown as a careful student of such writers as Sir Dudley North, John Locke, Sir James Stewart, Adam Smith, Thornton, Lord Liverpool and Garnier.

Horner in the speech which led to the appointment of the Bullion Committee, suggested that explanations other than the excessive issues of paper might account for part of the high price of gold. Ricardo chides him in a letter and gives a closely reasoned analysis of the problem. Three letters to *The Morning Chronicle* are given. One on the *Bullion Report* cites the bad conditions as an example of "the fatal effects attending the interference of Government in commercial concerns. . . ." Ricardo clearly states that inflation has caused injustice and that the return to par will cause injustice again, but he sees no remedy. Why not devaluation? The argument, in the *Bullion Report*, against devaluation because it involves a "breach of public faith," is evidently taken as conclusive. Ricardo argues that increases or decreases in the amount of money will have no effect on the physical volume of imports and exports, evidently a long-time argument. But he sees that the increase in paper brought forth speculators who increased exports "unnaturally" and later failed. There is shrewd analysis of the losses from inflation as varying with the proportion of wealth which is in the form of money or claims for money. In the letter on Sinclair's *Observations*, Ricardo, as a good controver-

sialist, mixes abuse of his opponent with keen answers to his arguments. The third letter on Randle Jackson's *Bank Speech* proves that the note issues of the Bank of England had been excessive.

Of the notes on books the most interesting are those which give Ricardo's comments as well as his summaries, such as the notes on the *Bullion Report*, on Coutts Trotter, and on Vansittart's *Propositions*. New material is presented on Ricardo's plan for a national bank, also some new correspondence. The editorial work is carefully done.

James D. Magee

New York University

Les Principes de la Reorganisation des Banques Centrales en Europe après la Guerre. By Edmond Ulrich. (Paris: Recueil Sirey. 1931. Pp. iv, 398.)

To the student of central banking this study is a welcome contribution. Present financial literature contains few analytical, comparative studies of central banks. Of this category there comes to mind only one good book in the English language, *i.e.*, *Central Banks* by Kisch and Elkin. Add to this the League of Nations *Memoranda on Currency and Central Banks*, the introductory chapter in Willis and Beckhart's *Foreign Banking Systems* and the list of references of comparative material is practically exhausted. Other post-war treatises of banks of issue are limited to special works on specific banks or subjects.

Struck by the fact that the post-war financial disorganization of monetary systems was in large part due to the failure of central banks to fulfill their functions, and that the reorganization or establishment of central banks of issue was the condition essential to success in restoring the financial structure in all countries, the author set about to discover what guiding principles were adopted in different plans of banking reform. Principally through comparison of texts, he attempts to isolate and to analyze the essential and indispensable features of the new statutes providing for the present organization of central banks of issue in selected European countries, which are designed to secure their successful operation.

Since the analysis of all central banks could not be undertaken, the selection was made of the banks of England, France, Belgium, Germany, Danzig, Austria, Hungary, Estonia, Greece, and Bulgaria. The last five cases were chosen because of the direct collaboration of the Financial Committee of the League of Nations in the reorganization of the old or the foundation of the new banks in those countries. Statutes governing these institutions have a particular doctrinal interest, since the success of the earlier cases contributed much toward the solution of problems

presented by the later ones. In fact the highest development of sound theory and experience is found to be exemplified by the statutory provisions governing the Bank of Greece. This modern example may be considered the latest model of central bank organization and administration.

The Financial Committee of the League of Nations in its report on Greece (June 14, 1927) enumerated the principles underlying monetary stabilization and cited the following as necessary for the proper functioning of central banks: (1) independence of the central bank of domination by the government and by particular groups; (2) monopoly of note issue; (3) restriction of advances to short-term self-liquidating loans, and to suitably secured loans; (4) reduction of state debt to the bank and limitation of new governmental loans; (5) centralization in the bank of the fiscal operations of the state; (6) appropriate and adequate cover for a unified fiduciary issue. This list of subjects fairly indicates the contents and the format followed in the organization of the volume under review.

A complete analysis of all the statutes governing these banks of issue and a comprehensive description of their organization and functions would not have been possible within the scope of one volume, nor could a historical exposition have been incorporated in such a study. Pre-war banks bore the marks of particular ideas in financial and economic matters which were current at the time of their foundation, and they have been victims of particular accidents and catastrophies. Historical conditions, traditions, and policies of the various institutions, the economic and political development and vicissitudes of the country, and even personal factors impressed their stamp upon the physiognomy of the central banks. But, despite the variety of developments found in the several countries, the differences point to fundamental facts; and since the war we can detect in central bank laws a unity of doctrine with regard to problems of (a) the internal administration of banks, (b) the relation of central banks to the state, (c) the nature and cover for bank notes, (d) the regulation of note issue and control of credit, (e) limitations on central bank operations and the like.

The author has handled the methodological difficulties of systematizing the treatment of the laws of ten countries under such general headings with discrimination and judgment. One might take exception to the arbitrary classification of some details under one major principle rather than another, but not on the ground of any great breach of logic. The reader may be disappointed with sketchy and superficial treatment of important features here and there, especially with regard to the banks of England, France, and the Reichsbank. Yet one can hardly expect elaborate and thorough treatment of these when the scope of the study is

limited to certain fundamental principles and the material drawn upon includes so many countries.

Since the volume was written before England and other countries suspended the gold standard in 1931, it seems rather ironical to read that "the work of financial reconstruction of Europe is approaching an end" (p. i) and "at the present moment, most of the states of Europe have reëstablished their monetary systems on a healthy basis" (p. 1).

James Washington Bell

Northwestern University

Prices and Production. By Friedrich A. Hayek. (London: Routledge. 1931. Pp. xv, 112. 6s.)

The present volume is, it seems to me, the only book of recent years which at all approaches Keynes's *A Treatise on Money* in the impetus it has given to renewed interest and discussion of business-cycle theory. This in itself is high praise. Altogether aside from the soundness of its conclusions, the value of the book and its important place in the recent literature of cycle theory is unquestioned.

In Hayek's view the essence of a boom is an elongation of the capitalistic process of production brought about by forced saving imposed upon the community by the action of banks. A lengthening of the production process thus occasioned cannot possibly, in his view, be permanently maintained, but must necessarily be followed by a shrinkage in the structure of production. Such a shrinkage, it is argued, is the very essence of depression.

The supply of money should, therefore, be kept constant, except for such increases or decreases as may be necessary to offset: (1) changes in the velocity of circulation, (2) changes in the coefficient of money transactions such as those occasioned by the amalgamation of firms, (3) changes in the non-monetary means of payment, such as book credit. Hayek wants, therefore, not a *constant* money supply, but a neutral money supply—one which will insure that there will be no *monetary* causes of price changes.

A neutral money supply would insure that no more is *invested* than is *saved.* On the other hand (though Hayek does not follow out these implications) it would insure that any savings which are "hoarded" (*i.e.*, not invested) would be offset by an expansion of money sufficient to counteract such hoarding. Thus a constant stream of money purchasing power would continually be made effective in the market, and any changes in prices would, therefore, of necessity arise from non-monetary factors such as increased production due to new techniques, new resources, increased capital supply, and increase in population.

Thus, under a neutral money policy successfully carried out, there

could develop neither monetary inflation nor deflation.[1] A neutral money policy would give us a monetary economy which would function for the most part like a barter economy but with the advantage (and some serious disadvantages of a frictional character) of a common denominator of value.

Hayek directs all his attack against monetary inflation (forced saving) which, in his view, is the source of most, if not all, of our difficulty. The implication is that monetary deflation could be prevented were monetary inflation definitely conquered. This is in sharp contrast to Keynes, in whose mind measures to prevent monetary deflation are always uppermost.

It will be noted that under a neutral money policy the money paid to the factors of production as a whole would tend to be constant despite increases in quantity of factors and improvements in their efficiencies. In a progressive society with a growing population, therefore, money wages would tend to fall. It is a great defect in Hayek that he fails utterly to see that such a money policy, with the modern institutions of piece-rate wages and trade unions would develop frictions of a very serious character. A neutral money policy, in a progressive society, would, moreover, bring about a fall in commodity prices. Could we assume that the price decline would occur in those commodities which were being produced at lower cost and in exact proportion to such cost reductions, all would be well. But unfortunately the cost-reducing industries might be the very ones best able, through monopoly control, to hold up prices, thus forcing the price reductions upon industries whose cost had not fallen. These rigidities, and the maladjustments which they would develop under a neutral money policy, would necessarily destroy the profit margin in many industries and cause a contraction of business. In short, a neutral money policy could not hope to escape serious maladjustments except in a society with perfect flexibility of the entire price system. But the interesting comment here is that if we could make this assumption (including flexibility in long-term contracts), any monetary policy whatever would be as good as any other policy or indeed no policy at all. For under this wholly unrealistic assumption, violent changes in the money supply and the price movements would cause no disturbances whatever.

Hayek is, moreover, seriously in error when he assumes that forced saving is necessarily an evil. If, indeed, the artificial stimulus of an increasing money supply ceases, and society is compelled to fall back on voluntary saving exclusively, difficulties such as he points out would develop. But, of course, there is no reason whatever why a constant rate of increase in the money supply might not continue indefinitely, either because of increasing gold reserves, or because of deliberate ex-

[1] Had a neutral policy been pursued during the last two or three centuries, capital formation and economic progress would have proceeded much more slowly.

pansion under a managed currency. *Fluctuations* in forced saving are, indeed, disturbing, just as violent fluctuations in voluntary savings are also; but Hayek is just as wrong in arguing that forced saving *as such* is necessarily an evil, as Foster and Catchings are wrong in arguing that the phenomenon of saving presents an insoluble dilemma.

In Hayek's view increased productivity should be permitted to register in lower prices. With an annual increase in production of around 3 per cent, commodity prices should fall about 3 per cent if the money supply were held neutral. I have suggested above some reasons why serious maladjustments would develop in a highly dynamic society placed in such a monetary strait-jacket. Historically, prices fell 2.9 per cent per annum from 1873 to 1896, almost exactly the price decline which Hayek's neutral money policy would call for. Yet, this was a period of very serious maladjustments, in which depression became, as Veblen pointed out, almost the normal characteristic of modern business. On the other hand, periods of slowly rising prices, such as that from 1896 to 1914, have, in contrast, been periods of less economic strain and fuller employment.

The late boom was the only one since the post-Civil War period in which commodity prices fell materially. In the United States the decline in prices was 1.6 per cent per annum from 1926 to 1929, and for non-agricultural prices 2.9 per cent. World prices declined even more. On Hayek's reasoning one would have anticipated a mild depression; unless indeed it could be shown (which is unproved) that despite this fall in prices the margin of profit for industry as a whole was wider than in other booms, owing to the "rationalization" program.

The essential thing needed for stability, as far as monetary matters are concerned, is to maintain equilibrium in the cost-price relationship. Owing to the constant pressure on the part of the employed factors for higher and higher money returns, and to numerous institutional arrangements which give rise to frictional disturbances in a highly dynamic society, equilibrium in the cost-price relationship could, in my view, best be maintained by a gently rising price trend. From the short-run standpoint adaptation to changes in the real phenomena could best be facilitated by moderate price fluctuations. Therefore a neutral money policy is desirable, I think, neither from the short-run nor the long-run point of view. Whether a gently falling or a gently rising price trend would achieve the greater stability in a progressive society depends wholly upon which would best preserve the cost-price equilibrium. In a society less subject to monopoly controls and cost rigidities, such as that of fifty years ago, a gently falling price level, as suggested by Marshall, might not be disadvantageous. But it does not seem to me that this is the case in the modern economy.

The great merit of Hayek's book is the challenge it presents to the mistaken notion that price stability is the all-sufficient criterion for banking policy. Yet the analysis leads (in effect) to the equally erroneous conclusion that the correct criterion for banking policy is a price level which falls in direct proportion to the increasing productivity of a progressive society.

The correct criterion for banking policy is neither *price stability* nor *monetary neutrality; profit stability* would be a safer rule. The cost-price equilibrium is affected not only by changes in the efficiency and quantity of the factors of productions but also by institutional and frictional influences. If wages rise as rapidly as technical progress justifies, prices may be stable, without disturbing the cost-price equilibrium, and in this event a banking policy which permitted price stability might be appropriate. But if wages do not rise as rapidly as increased efficiency warrants (as was in part the case from 1923 to 1929 in the United States), then it might be an appropriate bank policy to force a decline in prices; at least this might be the lesser of two evils. Monetary neutrality and price stabilization, mechanically applied, are equally dangerous and arbitrary rules, and the pursuit of either one is likely to result in serious maladjustments.[2]

Alvin H. Hansen

University of Minnesota

NEW BOOKS

Aldrich, W. W. *The causes of the present depression and possible remedies.* (New York: Chase National Bank. 1933. Pp. 36.)

A reprint of the statement made by Mr. Aldrich before the Senate Finance Committee, February 22, 1933.

Alston, L. *The functions of money.* (New York: Macmillan. 1932. Pp. vii, 139. $1.75.)

Beckhart, B. H. *The New York money market.* Vol. III. *Uses of funds.* (New York: Columbia Univ. Press. 1932. Pp. xiii, 475. $5.)

Beckhart, B. H., Smith, J. G. and Brown, W. A. *The New York money market.* Vol. IV. *External and internal relations.* (New York: Columbia Univ. Press. 1932. Pp. xiii, 606. $5.)

Boothe, V. *Salaries and the cost of living in twenty-seven state universities and colleges, 1913-1922.* (Columbus: Ohio State Univ. Press. 1932. Pp. xvi, 158.)

Part 1 presents: (1) an analysis of the trend of university salaries in the 27 institutions, by academic ranks; (2) a comparison of the trend in salaries with the trend in the cost of living for the same period; (3) a comparison of the trend in salaries and in wages with the trend in the cost of living of the respective groups.

[2] Space does not permit of a detailed critique of Hayek's analysis, particularly that contained in Chapters 2 and 3. The reader is, however, referred to an article by the reviewer and his colleague, Mr. Herbert Tout, on "Investment and Saving in Business Cycle Theory" in the April, 1933, number of *Econometrica.*

Part 2 presents: (1) an analysis of the salaries received from university teaching in relation to the total income and the total expenditures of 802 faculty members employed in the 27 institutions; (2) an analysis of the distribution of expenditures among the major budget items for the profession as a whole, and by income classes; (3) an index of the trends in living costs of this professional group from 1913 to 1932.

BUDGE, S. *Lehre vom Geld.* Grundriss zum Studium der Nationalökonômie, Band v, 2. (Jena: Fischer. 1933. RM. 21.50.)

CHANDLER, A. E. *Distribution of expenditures and a cost of living index for a professional group.* (Columbus: Ohio State Univ. Bur. of Business Research. 1932. Pp. 19, mimeographed.)

ESCHER, F. *Modern foreign exchange: an elementary treatise for the lay reader.* (New York: Macmillan. 1932. Pp. xi, 223. $2.)

An exceptionally clear exposition of the principles of foreign exchange, with abundant illustrations drawn from recent operations. Of special value at the present time is the chapter on government control of exchange rates.

EVITT, H. E. *An introduction to the practice of foreign exchange.* (London: Pitman. Pp. 102. 3s. 6d.)

GLÜCKSTADT, H. *Theory of the credit standard.* (London: P. S. King. Pp. 345. 15s.)

GOUDRIAAN, J. *How to stop deflation.* (London: Search Pub. Co. 1932. Pp. 32. 6d.)

A thoughtful and stimulating advocacy of the thesis that deflation can be combatted effectively by establishing a fixed relation between gold and the sum of fixed quantities of raw materials and maintaining this relation by open-market operations of the circulation banks in the commodity markets. The author dissents from Cassel and Keynes, who hold that the price level can be controlled by banks.

GREGORY, T. E. *The gold standard and its future.* (New York: Dutton. 1932. Pp. ix, 115. $1.50.)

This is an exceptional book. Professor Gregory introduces his discussion with an excellent chapter on the general nature of the gold standard and its manner of functioning under normal conditions, followed by a chapter describing the post-war operation of the standard with an analysis of the difficulties encountered. The remaining three chapters are devoted to the causes and consequences of Great Britain's departure from the gold standard and a discussion of the future of that standard.

Although the book is semi-popular in nature, it is likely to appeal strongly to the trained economist. The chapters on the functioning of the gold standard both before and after the war are decidedly superior to the usual presentation. The American economist may also gain a more accurate insight into the British situation than will be obtained from other material on the subject. (The reviewer has found it necessary to revise some of his opinions on this question as formulated through other sources.) In the closing chapter, Professor Gregory presents a strong case for a return to gold at a comparatively early date, although with some devaluation of the pound and a general removal of legal reserve requirements. He does not, however, make

any predictions as to when England, or other countries, will take this step, if a decision to return to the gold standard is arrived at.

FREDERICK A. BRADFORD

GRIER, E. R. *The depression as it appears to a business-man.* (Hartford, Conn.: Author, c/o Arrow-Hart & Hegeman Electric Co., 103 Hawthorne St. 1933. Pp. 93. 50c.)

The shifting, speculative value of money is "a menace to civilization." Argues in favor of measures which will stabilize its value, through a "compensated dollar," operations of the federal reserve banks, or the reintroduction of silver. The subject matter is presented by cartoons with textual comment.

HEILPERIN, M. A. *Monnaie, crédit et transfert: considérations théoriques sur la monnaie du système monétaire de la politique de crédit des règlements internationaux.* (Paris: Recueil Sirey. 1932. Pp. xiii, 142.)

HERZFELDER, E. *Kreditkontrolle: die Methoden der regulierten Währung und der manipulierten Währung.* (Leipzig: Junker und Dünnhaupt. Pp. xviii, 302. RM. 18.)

HUNTINGTON-WILSON, F. M. *Money and the price level.* (New York: Century. 1932. Pp. x, 221. $2.)

The thesis of this book may be set forth in two sentences. The prevailing ills of the economic system are due to the abnormally low price level, and, in turn, to the lack of purchasing power. This purchasing power can be restored only by an application of silver; consequently we must remonetize silver.

The author fails to distinguish between prices, the price level, and the cost of living. His argument also runs short of logic when he attempts to establish a relationship between the price level and purchasing power. To substantiate his plea for a higher international level—since an elevated national price system would be of no practical use—the author refers to the findings of the *Macmillan Report,* but only in regard to the monetary phenomenon of the crisis. The non-monetary factors are almost entirely disregarded.

The author bases his chief argument on the quantity theory but he nonchalantly discards it when the composition of money comes to be discussed. We learn that, "money . . . may be either cash or else credit" (p. 3) but, "we may dismiss all but real metallic money in seeking safe and efficient instrumentalities for raising the price level" (p. 130).

In face of the impending gold shortage, and because "banking has run away with money" (p. 128) silver is our only salvation. The author's proposal is simple enough: We shall remonetize silver to the extent of 4 per cent of our gold reserves and thus raise the price level to a profitable basis. This, however, can be achieved through international coöperation.

LESLIE LOVASS

KUCZYNSKI, R. R. *Bankers' profits from German loans.* (Washington: Brookings Institution. 1932. Pp. xii, 228. $1.75.)

During about five and three-quarters years, 1924-30, American banks floated German dollar bonds of the approximate value of $1,280,000,000. For this service the American banks received $70,000,000. Of this sum $50,000,000 were net profits. The author asks the question whether this profit was excessive. Lacking a knowledge of the bankers' overhead and

of the amount of their capital concerned in this particular business, however, he can come to no conclusion as to the reasonability of the rate of profits. Unfortunately for the borrowers, be it noted, there was a further sum to be deducted from the receipts of the sale of the loans—the payment made to the promoters of the loans, whether located in Germany or elsewhere.

This little book is valuable for its analysis, tables, and reproduction of evidence collected by Congress. It does not deal decisively with the question of responsibility for the quality of the loans, though the anxious attitude of the State Department is presented. Although some people would like to place the responsibility for such loans upon the originating groups, most of it will in practice remain with the investors who are ill equipped to meet it. Certainly the bankers were no more eager to handle the bonds than American investors were to buy them. Perhaps, as it seems to the reviewer, we shall have to fall back upon the idea of a national association of investors, organized to give out disinterested information much after the fashion of an (ideal) Consumers' Research.

N.S.B.G.

LEDERER, E. *Planwirtschaft.* (Tübingen: Mohr. 1932. Pp. 48. RM. 1.20.)

Professor Emil Lederer and Dr. Carl Landauer may be considered the two outstanding contemporary German socialists of theoretical caliber. In this short but very compact publication, Professor Lederer discusses, after having stated his belief in the inevitable trend toward a planned economy, whether such trend can go the way of peaceful evolution. "Laissez-faire" and "planning" are naturally mutually exclusive as economic *principles;* but, just as a planned economy may provide a place for unregulated fields of business endeavor, so does the control of certain industries as such not preclude a system of "free economy." The construction and maintenance of highways in the United States has not been motivated by the profit motive *per se,* but has hardly tended to impair "private capitalism." Professor Lederer thus believes that a partially planned economy can well exist as an island of the non-profit motive in an ocean of capitalism. Such fields of coöperative effort, however, will have to fit into the general capitalistic process of production and distribution, or, at least, should not disturb it.

For the attack of the most pressing problem of these days, Professor Lederer proposes a "scheme" which by and large appears to be built up on the same fundamental conception as Professor Frank D. Graham's.[1]

Chapter 3 discusses the extent to which a planned economy can rely on one single method of control, namely, credit control, such as through the distribution of water the agricultural development of a region can largely be determined. Today, however, for two reasons central banks do not have the power to regulate M and V. Professor Lederer believes the growing use of M' has made the commercial banks the real creators of credits and that furthermore the use of commercial credit to an increasing percentage flows into permanent investments. These two institutional developments tend to reduce the efficacy of central bank policy. An increase in the rate of the central bank has ceased to be reflected almost automatically by the sale of inventories, the decline of prices and the curtailment of production.

[1] *The Abolition of Unemployment,* by F. D. Graham, Princeton, 1932.

Only short-term, self-liquidating credits can be called in at the creditor's wish, while long-term investment credits are but little affected by any change in credit policy.

Professor Lederer concludes from these reflections the necessity of an institution, coöperating with the central bank, that exercises the control of the capital market. In periods of prosperity, this institution would use its influence to curtail the flow of funds into overexpanded industries, while in periods of depression as today, the financing of certain industries might be encouraged.

Unfortunately, Professor Lederer fails to consider the great practical difficulties that any such attempt would face, probably because such reflections were not in the scope of this publication. This interest appears to focus on the analysis of the difference between a "socialized economy" and a "planned economy." While in 1918-19 the German socialists were primarily concerned with the transfer of the control over the means of production from the entrepreneurs to the state, today socialists as well as entrepreneurs are eager to find ways of eliminating unemployment by some sort of planning.

Robert Weidenhammer

Libby, C. T. *The shifting middle third for curbing the long turn: a step towards a world norm for the buying value of money.* (Portland, Me.: Southworth Press. 1933. Pp. 14. $1.)

An ingenious proposal for settling contracts between debtors and creditors by the use of eligible negotiable warehouse receipts for certain basic staples of commerce. The author proposes that the Federal Reserve Board select a dozen or so basic, non-perishable, readily marketable goods and materials as silver, tin, copper, cotton, wheat, sugar, rubber and wool, giving a preference to the staples best known in world commerce; then to select five dates, one in 1913, one the approximate middle date of the period of rising prices in the World War, and the two approximate middle dates of the period of falling prices which started after the World War, the following period of rising prices, and the recent period of falling prices. For each of the selected staples the approximate average price is to be struck and made public. All business relating to the settlement of the debt is then to pass through a federal reserve bank. A creditor who decides to require payment under this law must, within a proper time limit before the due date, write to the proper federal reserve bank, giving the particulars of the debt, and specifying one-third of the list of staples in which payment shall not be made. In the same way a debtor who resorts to this law shall notify the bank, specifying one-third of the staples (the dearer for the time being) in which he will not pay. This leaves, then, the middle third out of which the debtor may find a method of payment.

Mlynarski, F. *Credit and peace: a way out of the crisis.* (London: Allen and Unwin. New York: Macmillan. 1933. Pp. 92. $1.25.)

Muhs, K. *Die Entthronung des Goldes: Betrachtungen zur internationalen Krisis der Goldwährung.* Wirtschaftsprobleme der Gegenwart, Heft 16. (Leipzig: Junker und Dünnhaupt. Pp. 53. RM. 2.)

Neifeld, M. R. *The personal finance business.* (New York: Harper. 1933. Pp. xviii, 490. $5.)

Nomi, F. *La realtà monetaria.* (Padua: Antonio Milani. Pp. 224. L. 20.)

Pethick-Lawrence, F. W. *The money muddle and the way out.* (London: Allen and Unwin. 2s. 6d.)

Pietri, F., and others. *Les doctrines monétaires à l'épreuve des faits.* (Paris: Felix Alcan. 1932. Pp. x, 232. 12 fr.)

Contains papers on the gold exchange standard and note issuing banks.

Reymond, M. H. *Permanently curing depressions: a new light of economic understanding upon the subject of depressions.* (New York: Baker and Taylor. 1933. Pp. 128. $2.)

Warren, G. F. and Pearson, F. A. *Prices.* (New York: Wiley. 1933. Pp. vi, 386. $3.)

Weber, A., editor. *Frankreichs Aufstieg zur Weltkapitalmacht: Diplomatie und Strategie des französischen Geldes seit 1926.* Wirtschaftsprobleme der Gegenwart, Heft 22-23. (Berlin: Junker und Dünnhaupt. 1933. Pp. 94. RM. 3.80.)

Weishaar, W. and Parrish, W. W. *Men without money: the challenge of barter and scrip.* (New York: Putnam's. 1933. Pp. ix, 111. $1.)

An interesting account of the barter and scrip movement in the United States. The authors, two newspaper reporters, made an extended investigation and collected their information over a wide area, including both city and rural enterprises.

Whitaker, A. C. *Foreign exchange.* 2nd ed. (New York: Appleton. 1933. Pp. xv, 466. $5.)

Woodworth, G. W. *The Detroit money market.* Mich. bus. stud., vol. v, no. 2. (Ann Arbor: Univ. of Michigan Bur. of Business Research. 1932. Pp. ix, 221. $1.50.)

This study contains a detailed analysis of banking factors in the city of Detroit. Part 1 considers the industrial development of the city in relation to its banking development, describes the general organization of banking and financial institutions, and explains the unusual features of the banking situation, such as widespread city branch systems, in relation to local factors. In Part 2 the sources of local funds are treated, and the uses to which the banks devote their funds are analyzed in Part 3. The final section of the study, Part 4, comprises a summary and appraisal of Detroit banking policy. The material included is well organized and presented, and the analysis is sound throughout. The volume should prove particularly interesting in view of the recent banking disturbances in the Detroit area.

Frederick A. Bradford

Zbijewski, W. *Problem dolarowy w polsce.* (Warsaw: Polska Gospodarcza. 1932. Pp. 46.)

This pamphlet marks the first attempt to measure the extent of the penetration of the Polish monetary system by the American dollar. The Polish peasant is well acquainted with American paper money and notoriously fond of it. There is no place in Poland, not even the smallest village, where it is not recognized and readily acceptable. According to estimates by Zbijewski more than $50,000,000 of American paper money is in circulation throughout the country. This is equivalent when reduced to zloty to more than 37 per cent of the hand-to-hand currency in Poland at the beginning of 1932.

Most of this American money is hoarded by the peasants to whom it was remitted by relatives in the United States, but significant quantities are used in ordinary exchange. A demonstration of the extent of the hoarding was given in October, 1931, shortly after the suspension of gold payments by England. Word was carried in the Polish popular newspapers that America too was going off the gold standard. In two days $5,000,000 in American paper currency was converted into zloty in Warsaw alone.

Dr. Zbijewski states (p. 15) that 32 per cent of all commercial deposits in Polish banks are carried in terms of dollars, although the actual deposits and withdrawals are made in zloty. This procedure is a consequence of the inflation of the Polish mark in 1923, and of the zloty in 1925. During both inflations the dollar was used for long-term contracts, for savings, and by employers to maintain cash holdings between pay days. The habit has survived although these "dollar deposits" today serve no purpose so long as the zloty is at par with the dollar.

So far as Poland is concerned every dollar of American paper money held there is a loan to the United States, payable on demand, but drawing no interest. Zbijewski urges that these bank notes should be given to the government in exchange for Polish bank notes. The gold certificates could then be held by the central bank to augment its gold reserve, and the other notes returned to the United States to meet war debt payments.

So far as the United States is concerned, the Polish hoards are only one small part of the question of foreign holdings of American paper currency. On the one hand, movements of currency out of the United States and back indicate changes in European monetary conditions which may give valuable information to financial experts.[1] On the other hand, however, these movements back and forth, which have in the past been as large as $30,000,000 in a quarter-year, make significant changes in the figures of money in circulation in the United States which may be misinterpreted. Since the last few years the *Federal Reserve Bulletin* has reported recorded shipments and receipts by certain banks in New York, and circulation figures may be partly corrected with their aid.

STANLEY IRVING POSNER

ZOLOTAS, X. *L'étalon-or en théorie et en pratique.* (Paris: Recueil Sirey. 1933. Pp. 266. 25 fr.)

The availability of bank credit. (New York: National Industrial Conference Board. 1932. Pp. xiv, 146. $3.)

The main body of this study (Chapters 2 and 3) consists of a thorough analysis of the replies received from a questionnaire sent out by the National Industrial Conference Board in the late summer of 1932. "Four principal questions were included. The first asked if any difficulty had been or was being experienced in obtaining banking accommodation required for legitimate business purposes; the second requested that full details be furnished, in case difficulties had been encountered; the third called for information concerning other companies known to the reporting executive to have similar difficulties; and the fourth invited suggestions

[1] See "Transatlantic Movements of American Currency," *American Bankers Association Journal,* January, 1933, p. 32.

for the improvement of the credit situation" (p. 56). Out of 3,438 replies received, 466, or 13.6 per cent of the total, reported refusal or restriction of bank accommodation. The preponderance of these were from smaller concerns some of which had relatively unsatisfactory credit ratings. Although the analysis shows that bank credit was not available, in the summer of 1932, to numbers of small enterprises which would normally have obtained accommodation, the restriction of credit to industrial concerns apparently was not so widespread as has been frequently supposed.

The volume also includes a long introductory chapter on "The basis of banking instability and bank credit liquidation" and a concluding chapter on "The problem of bank credit reconstruction," both of which contain excellent comments on sound commercial banking procedure. The study was prepared by Dr. R. A. Young and assistants. It exhibits the same critical restraint and unprejudiced analysis which characterized the Conference Board's earlier report on "The banking situation in the United States."

FREDERICK A. BRADFORD

Currency banking and finance. (London: The Labour Party. 1932. Pp. 11. 1d.)

Five next steps in the program of the Committee for the Nation to Rebuild Prices and Purchasing Power. (New York: Committee for the Nation to Rebuild Prices and Purchasing Power. 1933. Pp. 5.)

Indiana financial institutions: report of the study commission created by the seventy-seventh general assembly. (Indianapolis: State House. 1932. Pp. 174.)

Prices in Canada and other countries, 1932. Supplement to *The Labour Gazette,* Jan., 1933. (Ottawa: H. M. Stationery Office. 1933. Pp. 30.)

Public Finance, Taxation, and Tariff

Readings in Public Finance and Taxation. By M. C. MILLS and GEORGE W. STARR. (New York: Macmillan. 1932. Pp. xvi, 823. $3.50.)

Every teacher of public finance realizes that much of his most useful material for purposes of instruction is contained in such repositories as the *Proceedings* of the National Tax Association, the annual reports of state tax commissions, occasional reports of special investigating commissions of various states, official documents of the United States Treasury Department, publications of the National Industrial Conference Board, and so on. Yet it is generally impracticable to place any considerable amount of this material in the hands of all the students in an undergraduate course of any size. Probably no field of study more urgently invites the collection of readings in convenient textbook form.

Response to this invitation had already brought forth what the present reviewer, admittedly skeptical as to the usefulness of the general run of books of selected readings, has long regarded as an outstanding example of a successful book of this type; namely, Bullock's *Selected Read-*

ings in Public Finance. And now come Professors Mills and Starr, of Indiana University, with another book, which is certain to appeal strongly to American teachers of public finance.

The editors had an embarrassment of material from which to choose. Of course no one else would make precisely the same selections, and it would be easy for any reviewer to indicate what he would consider defects—of omission and commission. In the opinion of the present reviewer, the editors have generally exercised sound judgment, both in their choice of materials and in the distribution of their selections among the several departments of the subject. They have thus succeeded in assembling a collection of readings that will add immeasurably to the facilities provided by the existing textbooks. It is especially to be noted that they have resisted the temptation to range too widely and so clutter up their book with a great number of minute extracts. In general, each selection is a complete essay, adequate to its subject. This policy has placed strict limits upon the number of the selections (there are only 61, in a big book of over 800 pages, 400 words to the page) and has correspondingly increased the delicacy of the task of selection.

Detailed criticism of such a book is not permitted within the limits of an ordinary review. As a single example of what has been achieved, we may note the chapters devoted to the property tax. The standard textbook in public finance fails to recognize the degree of ignorance which generally prevails as to the actual structure of the property tax and the machinery and method of its administration; critical analysis and suggestions for reform proceed without adequate foundation. The present book will provide what the teacher has long missed, or has insufficiently secured only at great cost and inconvenience.

To retain its usefulness, a book of this sort must be frequently revised. The continued popularity of Bullock's *Selected Readings* is doubtless accounted for in part by the important place it gives to selections which partake of the classic. Even so, this book, though twice revised since its appearance in 1906, now contains many essays that are out of date. Though Mills and Starr have likewise presented many selections of such fundamental nature as to guarantee their usefulness for years to come, other parts of their book will surely depreciate as conditions change or more timely essays appear. It is to be hoped that the reception given this book may be such as to induce the publishers to look with favor upon frequent revisions and that the editors may be willing to accept the obligation thus imposed upon them to continue the good work they have commenced.

Fred Rogers Fairchild

Yale University

Taxation during the War. By JOSIAH STAMP. (New Haven: Yale Univ. Press, for the Carnegie Endowment for International Peace. 1932. Pp. xiv, 249.)

This unusual book is the story of war taxation in the United Kingdom as told by an official who participated actively, if not always conspicuously, in the inception and preparation of most of the projects that make up his country's fiscal history during the war period. The ranks of those who can speak from personal experience in such matters are thinning out; and soon this valuable source of information and appraisal will be lost, unfortunately. It is a genial and skillful *raconteur* who here, after a decade of checking and evaluation, relates his observations and criticisms of the fiscal phases of that martial interlude.

The story is told in two parts. Part I might be called a parliamentary history of the six war budgets. One by one, they are passed in review in chronological order. The pattern of presentation is simple and fairly uniform throughout, and changes only with the mounting costs as the war machine hits its stride, requiring formerly unbelievable amounts. The Chancellor of the Exchequer presents his budget and defends it, the opposition states its objections feebly and with little effect, and the program is approved. In the emergency there is little the House can do in fiscal matters, and much it must do on other matters. Fortunately the British system of government permits a succession of able chancellors to function efficiently, with support of an informed public. Yet in the first war budget little was asked for but a doubling of the income tax and increases in the whiskey and beer taxes. Nor was there much more in the second budget, except the ill-favored tax on munitions. "Real taxation at last," in the form of increased income taxes, excess profits taxes, import duties (perhaps the beginning of the end of free trade), and additional and increased consumption taxes, apparently in response to a public demand for being taxed, arrived in the third war budget. And such is, in brief, the British war tax system, continued in the last three budgets. But the story is entertainingly told, with fitting details and analysis.

In Part II much of the same ground is covered, but the method is different, and one must condone the repetitions. Chapter 6, "Taxation at the outbreak of the war and modifications due to war conditions," covers a relatively meager field, for the reason that, with the exception of the excess profits tax and the inevitable multitude of details, the British system was already well adapted for the emergency. Chapter 8, "Concluding observations," is brief. It is admitted that by unanimous consent the British war tax system stood the strain better than that of any other belligerent country. Even so, the pride is tempered by the necessary admission that, while there were insistent clamors on the part

of the taxpayers for higher taxes, these clamors did not preclude avoidance and evasion, much of which Parliament and the Treasury found it expedient to condone. At best, even, taxes are voluntary in part. It is in Chapter 7, "The excess profits tax," nearly seventy pages long, that Stamp makes his best contribution. In conception and administration, the British excess profits tax, as a war tax, was admirable. Nowhere else does the British trait of official reasonableness show to better advantage.

It is tempting to digress from the proper scope of a review, to comment upon the measures of success of the war finance structure, as described. One item would be the flexibility and effectiveness in emergencies of the British government; another, the caliber of leadership; the high ratio of taxation to loans, a third; and the high percentage of direct taxation, a fourth. There are others; but they have been treated elsewhere.

Stamp has confined himself largely to telling what he has seen from his official post in the Treasury; but it must be conceded that not much of interest escapes this point of vantage; and it is certain that he has thus well employed his efforts. The pages are almost devoid of footnotes. Two indexes, one of names and one of important subjects, seem adequate.

Jens P. Jensen

University of Kansas

English Public Finance, 1558-1641. By Frederick C. Dietz. (New York: Century Co., for the American Historical Assoc. 1932. Pp. xviii, 478. $4.00.)

This detailed piece of scholarship is a continuation of Professor Dietz's earlier work, *English Government Finance, 1485-1558*. In reality, the present volume consists of two books in one cover. The first part (Chapters 1-13) traces, with painstaking detail, the evolution of English fiscal policy during the reigns of Elizabeth and the first two Stuarts. The second part (Chapters 13-20, inclusive) consists of special studies in revenue and expenditure.

The financial narrative in Part I is developed with no small amount of skill. The material (drawn largely from the Public Record Office, the British Museum, and from the Sackville manuscripts) is presented chronologically. This method has the advantage of showing how new financial problems were constantly arising and how each, in turn, was solved. But there is also a disadvantage, namely, that the reader cannot see clearly the evolution of any particular fiscal device unless each item is catalogued as he proceeds with the narrative. Fortunately, Professor Dietz has seen this difficulty and attempted to meet it by a detailed study of various forms of revenue in Part II.

In general, Professor Dietz has approached the problem of English public finance from the standpoint of political and constitutional history. Hence the theory of public finance, or the probable incidence of various forms of taxation, receives but little treatment. In Elizabeth's reign, for example, as far as the evidence is concerned, fiscal expediency appears to have been the guiding principle, and Professor Dietz has abundantly shown how this principle was applied. Whether by forced loans, increased rents from crown lands or fines levied on recusants, revenues were collected. But frugality was not forgotten and Lord Burghley might well qualify as a finance minister who realized the necessity of balancing the budget.

War with Spain and the military assistance to the Netherlands, however, brought serious financial pressure. While Burghley, as Professor Dietz has said, "cut his coat according to his cloth," his successors unfortunately "were men of different mold." But circumstances were also different and, as a result, the closing years of Elizabeth's reign found England on the verge of bankruptcy. Even so, the existing fiscal confusion was but a prelude to an even greater confusion which was to follow.

The luxury of the Stuarts, together with increasing state functions, precipitated a need for more revenue. Government offices were riddled with graft. Alienation of crown lands had relinquished one great source of year to year revenue in exchange for an immediate sum. All these forces, in conjunction with rising prices and the tendency of old revenues to decay, made new impositions imperative. Yet the resourcefulness of the Stuart government financiers was nothing short of remarkable. By farming the customs, selling titles or experimenting with almost countless "projects," the situation was prevented from becoming desperate. Moreover the nation gradually became accustomed to pay regularly taxes which had originally been levied merely for emergencies.

Professor Dietz's "Special studies in revenues and expenditure" (Book II), comprising one essay on land revenues, two on customs, one on new impositions, one on "Subsidies, fifteenths and tenths," and three on expenditures, deserve praise. These essays are stored with rich detail, for example, the capturing of economic rent on fixed leases by means of fines (p. 296); the fiscal advantages of farming customs (p. 311); a re-examination of the "great farm" (pp. 330-342); the profits of the customs farmers (pp. 359-361); the early use of a "free list" (p. 370). Special mention must be made of that portion of Chapter 17 dealing with subsidy assessments. By a recitation of Elizabethan and Jacobean experience, Professor Dietz has not merely written public finance history but revealed the universal and eternal taxation problems. Assessors were then, no more than now, able to provide satisfactory lists; commissioners

were charged to be impartial but were not; undervaluation was chronic because local assessors had their eyes on the local unit and gave scant thought to the nation.

The economic historian will find this admirable book a safe guide through a treacherous subject. If he is disappointed, it will probably be for two reasons: because English fiscal measures have not been related to the growth of early English banking and the foreign exchange market; and because no separate effort has been made to trace the theory of public finance. Professor Dietz's intimate knowledge of a long succession of Tudor and Stuart "tax experts" ought to throw new light on theory as well as fact; and, although such a project may have been outside the scope of the author's original self-assignment, it would be cordially welcomed, as a separate article, by students of economic thought.

E. A. J. Johnson

Cornell University

The Means to Prosperity. By John Maynard Keynes. (New York: Harcourt Brace. 1933. Pp. 37. 1s.)

This pamphlet is an enlarged version of articles by Professor Keynes in the London *Times* in March of this year. Professor Keynes's proposals fall into two intimately related parts: (1) loan expenditure for creating employment, and (2) the "reflation" of prices.

With respect to loan expenditure for capital purposes, it is argued that this policy, rather than unbalance the budget, would (allowing for the time lag) improve the tax base by increasing the national income in addition to relieving the demands on the dole. It must be noted that the reasoning and the basis of the calculation assume *present circumstances* in England. Under these given conditions it is estimated that each man put to work by primary expenditures will create employment for another due to secondary repercussions; similarly, that each pound of *new* capital expenditure paid for by an *additional loan* and not by reducing consumption expenditure, will add another pound. However, conservatively, 1½ is taken as the multiplier in the computation instead of 2 as estimated. On this basis, for instance, a loan expenditure of £3,000,000 should in round numbers benefit the Exchequer by half its amount, for it would give employment to 20,000 men (assuming that £150 is required for a man) thus relieving the dole of £1,000,000 (*i.e.*, if the per capita burden on the dole is taken as £50) and would shortly, if not immediately, increase tax revenues by about £500,000 (*i.e.*, assuming that the national income subject to taxation is increased by 1½ or to £4,500,000 and that only 10 per cent accrues to the Exchequer). Obviously, the government could, on this basis, subsidize new housing, etc.,

up to 50 per cent without affecting the budget adversely, if a period longer than the given fiscal year were taken into consideration, since the full effects would not appear during the given annual budget period. Professor Keynes contends that this proportion far exceeds the needful subsidy.

It is pointed out, further, that the same reasoning applies to relief from taxation by suspending the sinking fund and by returning to the practice of financing by loans those services which can properly be so financed (p. 15).

Restrictionist procedure is properly dismissed as unsound for raising general prices. Attention is focussed upon methods of increasing expenditure upon commodities more rapidly than their rate of supply, as the only possible means of raising the prices of commodities as a whole. Within a country, aggregate spending power can only be raised by increasing loan expenditure or by improving the foreign balance. But only the first is tenable for the world as a whole; for the national gains from the latter are soon offset by competitive currency depreciation and tariffs. In order that loan expenditure may increase it is essential that (1) bank credit be cheap and abundant, (2) the long-term interest rate be low, (3) public bodies take the initiative in public expenditures until private enterprise achieves confidence.

To meet the resistances which any single nation (particularly Great Britain) must face if it attempts to raise its price level independently, Professor Keynes has developed a plan for raising world prices. The scheme would involve the joint action of the 39 leading nations of the world in the issuance of $5,000,000,000 of gold notes which would be based upon an equal face value of the *gold* bonds of the governments and would be accepted as the equivalent of gold, although they would be withheld from general circulation. Among the details of the plan only a few need be reviewed here; as (1) no country's quota may exceed $450,000,000, with the actual amount bearing some relation to gold holdings at the end of 1928, (2) each participating country would adopt a *de facto* parity between gold and its currency, (3) considerable leeway for adjustment should be possible under the direction of the international authority in whose hands the administration of the note issue is placed.

It seems to the reviewer that Professor Keynes has established his paradoxical case that the way to reduce the tax burden is to spend more under present conditions, provided the major industrial countries participate. Fortuitous international developments might intrude to interfere with the liquidation of the debt burden for any country which proceeded separately. Without doubt, the chief weakness of Professor Keynes's general proposals, particularly the international note issue scheme, lies in their dependence upon international political action. To

this criticism Professor Keynes has already replied: "That is no reason why this country should not advocate it and make its ideas familiar. For opinion moves rapidly. If matters do not mend, the world will accept with eagerness next autumn what it might reject today" (London *Times*, April 5).

Two additional comments made by Professor Keynes in the controversy over his proposals are peculiarly significant. The first referred to conditions in the United States and was made before the abandonment of the gold standard: "I think it possible that they (*i.e.*, America) will suffer another almighty smash. . . . They have no clear objective and no real convictions. I doubt if they are capable of pursuing a difficult policy with persistent and single-minded determination. . . . They look like oscillating between inflation and deflation, offsetting each by the other; until disappointment and suffering provoke a new outbreak of nation-wide hysteria" (*Times*, April 11).

The second comment appeared on April 27 in the same medium after the Chancellor of the Exchequer had rejected the plan of increasing loan expenditure in his budget address. Professor Keynes wrote: "Unfortunately it seems impossible in the world of today to find anything between a Government which does nothing at all and one which goes right off the deep end—the former leading, sooner or later, to the latter."

E. T. Grether

University of California

NEW BOOKS

Blakey, R. G. *The state income tax.* (Minneapolis: Univ. of Minnesota Press. 1932. Pp. viii, 88. 50c., paper; $1, cloth.)

This is made up of two chapters reprinted from *Taxation in Minnesota* which Professor Blakey has edited. The chapter on income taxation was prepared by Professor Blakey himself and is the longest and, in many respects, the best in his volume. In addition to bringing the factual material respecting state income taxes up to date, this pamphlet includes a good two-page bibliography on state income taxation.

James W. Martin

Blakey, R. G., and associates. *Taxation in Minnesota.* (Minneapolis: Univ. of Minnesota Press. 1932. Pp. xii, 627. $1, paper; $2. cloth.)

The major problems of Minnesota taxation are examined in this study and, as would be supposed, the point of view follows this emphasis. But since these problems—the assessment of real and personal property, tax delinquency, forest taxation, the taxation of mines, banks, railroads, and public utilities, the problems of highway and school finance—are not peculiar to Minnesota, the value of the contribution made here is general as well as local.

In a work of this merit it is difficult to single out individual chapters for special mention. But in view of the need for information on the problems which they treat, the chapters on tax delinquency and the cutover

land problem, forest taxation and mining taxes are of special significance. Mention should also be made of the estimates of Minnesota income and the statistical study of the occupation, age and previous experience of 1,482 local assessors.

The book is a triumph of coöperative writing. A generally high level of accomplishment is maintained throughout. Moreover, the styles of the various contributors have been "smoothed" so that the reader passes from one chapter to another scarcely aware of a difference.

M. Slade Kendrick

Boucke, O. F. *Europe and the American tariff.* (New York: Crowell. $1.50.)

D'Albergo, E. *La crisi dell'imposta personale sul reddito: la riforma dell' imposta nel Belgio.* (Padua: Milani. 1931. Pp. xi, 165.)

The author approaches the personal income tax, as exemplified in the American surtax and in the Italian graduated complementary tax on total income, from the standpoint of the benefit principle of taxation, and pays scant attention to the principle of ability. He contends that the tax was intended to tap the benefits conferred by the state on the individual as a producer and that it is no longer justifiable because the unit of production is now the corporation or other collective unit rather than the individual. In addition, the tax encourages a large amount of evasion and by its inquisitorial procedure antagonizes the taxpayer.

He therefore proposes to substitute for the complementary personal income tax a business tax on the collective unit of production, which now enjoys the benefits which the state confers on the producer, and a tax on the individual for the benefits which he obtains from the state in the utilization of his income in consumption. This latter tax would be a graduated levy on presumptive consumed income, using the family as the unit of taxation and exempting a certain minimum consumption. Such consumed income would be calculated with the aid of a number of indices of expenditure, as in the Belgian law of 1930; the feasibility of the utilization of such indices he attempts to demonstrate by an analysis of studies of consumption in the United States, Great Britain and Germany. Following Einaudi and J. S. Mill, he would exempt savings from this income tax, a proposal which runs counter to the general trend in the economically more advanced countries. Still pursuing the elusive thread of benefit, he finds that this proposed tax on income consumed should really go to the local governmental unit (instead of to the central government as in Belgium), since it is the locality which primarily confers the benefits attending consumption. Although the general reform he advocates has been adopted recently in Belgium and Greece and although it may possibly offer some advantage to a country like Italy, where evasion of the income tax is notorious, it would seem to be of no utility to a country like the United States, where evasion of the income tax is much less of a problem.

The book also contains a summary by P. B. Dertilis of the 1930 changes in the Greek income tax law, an Italian text of the statute concerned and a French text of the Belgian law of 1930. There is a supporting preface by Professor Benvenuto Griziotti.

Joseph J. Senturia

Gideonse, H. D., editor. *Balancing the budget; federal fiscal policy during depression. A statement by a University of Chicago Round Table.* Public policy pamph. no. 1. (Chicago: Univ. of Chicago Press. 1933. Pp. 30. 25c.)

———. *War debts.* Public policy pamph. no. 4. (Chicago: Univ. of Chicago Press. 1933. Pp. 33. 25c.)

Harvey, A. S., compiler. *The general tariff of the United Kingdom: laws and regulations.* (London: H. M. Stationery Office. Pp. 181. 5s.)

Holy, T. C. and Sutton, D. H. *Financial status of Ohio city and exempted village school districts.* Bur. of Educ. Res. monog. no. 13. (Columbus: Ohio State Univ. 1932. Pp. 83. $1.)

Hunter, M. H. *Costs of township and county government in Illinois.* Bull. no. 45. (Urbana: Univ. of Illinois Bur. of Business Research. 1933. Pp. 31.)

Kendrick, M. S. *Taxation issues, with special reference to state and local problems.* (New York: Harper. 1933. Pp. xii, 147. $1.)

The present brief volume is the third in the current economic problems series edited by Professor P. T. Homan. Designed for college students as well as the general reader, it may fail to reach either class effectively; but, if so, the fault lies not in the quality of the treatment of the selected issues. The emphasis given to these hitherto "neglected" issues should be welcomed. The author's self-imposed limitation to problems on which he thought he "had something to say" should not imply that everything he says is original. For the greater part the book is delightfully readable. Unless what appears (p. 104) to be an error in grammar is really a trace of the printer's devil, no such traces were found.

In Chapter 1, "The rising tide of taxation," and in Chapter 2, "The quest for revenue," a suitable background is prepared, and little else is offered except the sane point of view that public services are, or may be, useful, and that expenditures are not likely to decrease in the visible future. Perhaps the unifying element in the book appears in Chapter 3, "The general property tax." The practice of basing this tax, and not other taxes, on the budgeted expenditures is justly criticized, as is also the burdensomeness of this tax during unfavorable business conditions. Commendable emphasis is given to the relationship between anticipated property income and the capital value, which is so frequently neglected by the assessor. Capital value is regarded as inferior to rental value as a basis for property taxes. In Chapter 4, "Relations between state and local taxation," are discussed the scope and place of grants-in-aid and locally-shared state-administered taxes. In Chapter 5, "The shifting of taxes," the author has incorporated his most definite contribution, that expenditures are factors in shifting, which is to say that demand as well as supply may be changed by the tax and this change become a factor in determining the price of the taxed good. Specifically, as an example, the expenditures of gasoline tax revenue for highways has increased the number of automobiles and increased the demand for gasoline. The result of this factor in shifting the tax would seem to be to augment the effects of the slope of the supply curve with respect to increasing or decreasing cost. In the final chapter the belief is advanced that in so far as possible the criterion for the apportionment of the taxes ought to be the benefits accruing, not to individuals but to groups, from a public serv-

ice. For example, fire protection, benefiting not land but improvements and tangible personal property, should be paid for by a tax on buildings.

JENS P. JENSEN

KLEIN, J. J. *1933 cumulative supplement to federal income taxation.* (New York: Wiley. 1933. Pp. xxii, 1134. $6.)

This is the third supplement to Dr. Klein's monumental work on the United States income tax. The basic manual, *Federal Income Taxation,* appeared in 1929. Cumulative supplements were brought out in 1930 and 1931. The basic text and the 1931 supplement were appraised by the present reviewer in the *American Economic Review* of September, 1929, and June, 1931, respectively. It was the author's original intention to present a 1932 supplement, but by that time it became evident that Congress was about to make substantial changes, and the present supplement was therefore delayed till it could cover the Revenue act of 1932 and the corresponding regulations.

This volume, about twice the size of the 1931 supplement, brings the subject up to date by means of an exhaustive discussion of all changes in the law and the regulations and of all new conditions brought about by court and administrative decisions and rulings. Following the plan of the preceding supplements, the material is presented in accordance with the exact arrangement of the basic manual, using the same paragraph numbers. It is sufficient to say that, through this supplement, Dr. Klein's extremely valuable contribution is preserved unimpaired for the service of the student and the practitioner.

FRED ROGERS FAIRCHILD

MAGILL, R., editor. *Lectures on taxation.* Columbia Univ. symposium, 1932. (New York: Commerce Clearing House. 1932. Pp. v, 254. $2.50.)

MOHUN and ELLIOTT. *The Revenue act of 1932, approved June 6, 1932.* (Washington: Press of B. S. Adams. 1932. Pp. xxiv, 171.)

MONTGOMERY, R. H. *Federal tax handbook: Revenue act of 1932.* (New York: Ronald. 1933. Pp. xiv, 1035. $7.50.)

Mr. Montgomery's series of income tax manuals is well known. Starting with a modest volume of a few hundred pages in 1917, a bigger and better edition has appeared in every year to 1927. The next was the *Income Tax Procedure: 1929,* which, instead of superseding the 1927 manual, sought only to bring the picture of the substantive provisions of the law up to date by commenting on the 1928 law and the court decision and administrative rulings of the intervening two years; the matter of administration was taken care of in the author's *Federal Tax Practice.*

The 1929 manual, as now appears, is to be the last of this series. Mr. Montgomery believes that there is not enough interest in the problems of past income tax laws to justify another book on the former model. Instead, he now gives us a handbook on the entire Revenue act of 1932, not limited to the income tax but dealing with all the "problems and misunderstandings" which he believes are sure to arise under that law.

Mr. Montgomery's income tax manuals have been regularly reviewed in this journal (note particularly Professor Plehn's review of the 1918 volume in the *American Economic Review* of June, 1918) and are so

well known to students of the income tax that it will be sufficient here to state merely that his characteristic attitude of caustic criticism of Congress and the Treasury administration, coupled with clear analysis and constructive suggestions directed especially to the taxpayer, is continued in the income tax section of the present book, which occupies over three-quarters of the text.

As to the estate tax, the gift tax, and the various "miscellaneous taxes" levied by the Act of 1932, the author proceeds to work through the law, stating, explaining, and criticizing each provision after the manner made familiar in his publications on the income tax.

Montgomery's income tax manuals have from the start been among the most useful for the student of taxation. The present volume will be of great service to all students of the United States tax system, as well as to taxpayers and tax accountants and lawyers.

FRED ROGERS FAIRCHILD

POLLARD, R. T. *China's foreign relations, 1917-1931.* (New York: Macmillan. 1933. Pp. x, 416. $3.50.)

Chapter 10 deals with tariff autonomy.

PREUSS, F. *Die Finanzverfassung der Gemeinden und Departements in Frankreich und die Pläne zu ihrer Reform.* (Jena: Fischer. 1933. Pp. xii, 166. RM. 8.)

RIETZ, A. *Englands Staatsanleihen nach dem Kriege.* (Berlin: Berliner Kommissions-Buchhandlung. 1932. Pp. 98.)

This second volume in Adolf Trende's *Forschungen zur Internationalen Finanz und Bankgeschichte* is more than an excellent detailed history of England's post-war financing. It brings into sharp relief the contrasts of the economic problems facing England in shaping her fiscal policy as compared with conditions in France and the United States. Each step in the process of converting the various types of short-term loans into long-term loans is evaluated as to its merits. In tracing the efforts to gain reductions of the national debt, particularly in attempts to secure capital levies for this purpose, Rietz reviews the leading arguments that were presented.

He reaches the conclusion that the main task of the British treasury in the immediate future will be that of seeking further loan conversions while holding as far as possible to the present system of debt reduction.

WALTER E. ROLOFF

SIMONDS, F. H. *The A B C of war debts and the seven popular delusions about them.* (New York: Harper. 1933. Pp. 77. $1.)

China: report of the national government of the Republic of China for the 19th and 20th fiscal years July, 1930, to June, 1932. (Nanking: Ministry of Finance. 1932. Pp. 12.)

Cost of government in Indiana. (Indianapolis: Indiana Taxpayers' Assoc. 1932. Pp. 42.)

A definite program for federal economy on veterans' expenditures. (Washington and New York: National Committee for Economy in Govt. Pp. 19.)

Federal and state tax systems. 4th ed. By the Tax Research Foundation, Prepared under the direction of the New York State Tax Commission. (Chicago: Commerce Clearing House. 1933. Pp. 209. $10.)

This volume gives a picture, through charts and tables, of the tax systems of the United States by states and thirty-eight foreign countries. With each tabulated presentation there are columns showing the legal citation, title of tax, basis of tax, measure of tax, rate of tax, administration of tax, as to assessment, levy and collection, disposition of the tax, as to state or local, date of taxable status, date of return or information when due, and date the tax is due. There are also textual notes giving condensed histories of taxation in the several jurisdictions included. These notes are prepared by experts. As a source book the volume will prove to be most helpful and important. A very considerable section of the volume is devoted to different groups of taxes, as for example, those on banks, public amusements, beverages, chain stores, forests, gasoline, income, inheritance, insurance, and poll. On these pages there are brought together the data from the several states so that the reader may quickly discover where certain types of taxes are levied. Some of the sheets show the amount of tax collections in various jurisdictions for recent years.

Financial statistics of cities having a population of over 30,000, 1930. Census Bur. pub. (Washington: Supt. Docs. 1932. Pp. 623. $1.25.)

New Jersey: report on a survey of administration and expenditures of the state government of New Jersey with recommendations of economies for the fiscal year 1933-34. (Princeton: Princeton Univ. School of Pub. and Internat. Affairs. 1932. Pp. 403.)

New York new estate law and taxation of estates: a compilation of the amendments to the laws of the state of New York affecting wills, trusts and estates of decedents, enacted pursuant to recommendations of the commission to investigate defects in the laws of estates, together with a condensed explanation and complete reprint of the New York estate tax law, the federal estate and additional estate tax laws and the federal gift tax law. Oct., 1932, ed. (New York: Central Hanover Bank and Trust Co. 1932. Pp. xx, 236.)

Regulations 77 relating to the income tax under Revenue act of 1932. U. S. Bur. of Internal Revenue. (Washington: Supt. Docs. 1933. Pp. 423.)

The taxation of motor vehicle transportation. (New York: National Industrial Conference Board. 1932. Pp. xii, 196. $2.50.)

This book follows so closely the plan that is used in the earlier volumes on the subject of public finance by the Board, that, with minor variations, the same formula may be used in reviewing it. It is intended to be a factual study, and is not intended to "decide any controversial issues"; and this purpose, within its scope, it fulfills rather well. Most of the controversial issues are, however, stated; and sometimes "decisions" are made. For example, the tendency of state legislatures to divert the revenue from certain taxes from highway uses to other special uses or to the general fund, which is not entirely free from controversy, is deplored.

Of the 200 odd pages, over half are used to present the 43 tables, and the balance is largely textual explanation. Only two types of taxes are dealt with at length, namely the motor vehicle license tax and motor fuel tax; but almost every phase of these taxes, from their statutory provisions to their revenue yield and the methods and extent of evasion, is compactly presented in tabular form. As usual in this series, there is no index and no bibliography; but the full table of contents and the long list of tables suffice to facilitate

ready reference to the material, which is drawn chiefly from original or a few standard secondary sources. The volume is free from repetition and the arrangement is convenient. As far as verification of the data can be made, the statements are as accurate as is possible when complex phenomena must be reduced to tabulation.

JENS P. JENSEN

The world war veterans and the federal treasury. (New York: National Industrial Conference Board. 1932. Pp. viii, 77. $2.)

Population and Migration

NEW BOOKS

KISER, C. V. *Sea island to city: a study of St. Helena Islanders in Harlem and other urban centers.* (New York: Columbia Univ. Press. 1932. Pp. 272. $3.50.)

The population of St. Helena Island, off the coast of South Carolina midway between Charleston and Savannah, has declined 45 per cent between 1900 and 1930—from 8,285 to 4,458. This decrease in population has been due to migration. It is an especially interesting migration because virtually the whole population is negro and the Islanders own their little farms. That is, white discrimination and tenancy, which have been so often assigned as causes of negro migration, have not been present. Moreover, the inhabitants of St. Helena have, in addition to public schools, a first-rate industrial and agricultural school maintained for many years by Northern philanthropy.

The migrants have gone principally to Savannah, New York City, Charleston, and Philadelphia. Dr. Kiser has studied the Islanders in their native surroundings and in the cities to which they have removed, especially those in Harlem. The causes of their leaving have been broadly economic—the small size of the farms, two destructive hurricanes, the decay of the phosphate industry, the wiping out of long-staple cotton by the boll-weevil. These causes did not operate immediately to produce waves of migration; there was naturally a lag, with a temporary or intermediate removal to some nearby coast city before the longer jump to permanent alienation was attempted. In recent years there has been increasing tendency for young men and women to go directly to Harlem. Dr. Kiser feels that on the whole the shift from agricultural self-employment to urban wage-working has been beneficial to the migrants, and will prove increasingly so. The book is detailed without being pedantic, and contains a judicious mixture of social analysis and human interest.

BROADUS MITCHELL

KULISCHER, A. and KULISCHER, E. *Kriegs und Wanderzüge: Weltgeschichte als Völkerbewegung.* (Berlin: Walter de Gruyter. 1932. Pp. vii, 230. RM. 18.50.)

LAIDLAW, W., compiler. *Population of the city of New York, 1890-1930.* (New York: Cities Census Committee. 1932. Pp. 316.)

MARK, M. L., GRIGGS, J. and BRUNSMAN, H. G. *Population characteristics by census tracts, Columbus, Ohio—1930.* (Columbus: Ohio State Univ. Bur. of Business Research. 1933. Pp. x, 144. $2.)

SALVADORI, M. *La penetrazione demografica europea in Africa.* (Turin: Frat. Bocca. L. 7.)

American Council of Learned Societies: report of the committee on linguistic and national stocks in the population of the United States. (Washington: Supt. Docs. 1932. Pp. 103-441.)

Reprinted from the *Annual Report of the American Historical Association* for 1931.

Some recent trends in race relations, together with a brief survey of the work of the Commission on Interracial Coöperation. (Atlanta: Commission on Interracial Coöp., 703 Standard Bldg. Pp. 20. Gratis.)

Social Problems and Reforms

The Economic Results of Prohibition. By CLARK WARBURTON. Columbia stud. in hist., econ. and public law, no. 379. (New York: Columbia Univ. Press. 1932. Pp. 273. $3.25.)

Mr. Warburton undertakes to report findings about the economic results of prohibition in the United States only if he can base them on statistical series. Such a resolution often requires some pages as to why the statistics are not available. The special complication here is that the traffic is illegal. So Mr. Warburton has to make an intricate set of estimates, and most of the book is taken up with figures—combining and qualifying them. The last chapter lists the conclusions.

Mr. Warburton had to make his estimates of the consumption of beer, wine and spirits from figures on production and uses of grapes, sugar, etc. It is hard to believe that one could get accurate results, but Mr. Warburton finds that these yearly figures of alcohol consumed check with an independent series which he derives from deaths from alcoholism and cirrhosis of the liver; they even check fairly well with a still less certain, but also independent series from arrests for drunkenness. Criticism: cirrhosis, etc., have usually been held not to correlate with alcohol consumed; *e.g.*, under prohibition cirrhosis may result from poisonous liquor rather than from too much liquor.

He concludes that alcohol consumed per capita fell sharply in the first three years of prohibition, and even after a revival of the industry under new management it was barely two-thirds of the pre-war consumption. He estimates the expenditure on this liquor from sample retail prices and from supposed costs of home manufacture, and finds that, although considerable was made cheaply at home, the high bootleg prices raised the cost of the two-thirds we drank to nearly five billion dollars in 1929, or about what it would have cost to drink the full three-thirds if we had retained war-time taxes instead of war-time prohibition.

The business class (he estimates) drank its full three-thirds, but paid an extra billion a year for it. The working class found beer hard to get, drank more spirits and wine, but did without nearly half the alcohol it

had been accustomed to, and so diverted a billion a year elsewhere. However, year by year more beer came onto the market—up to the depression.

The book takes up certain assertions of the prohibitionists. Mr. Warburton finds that among the factors making for greater productivity the separate effect of prohibition, if any, is not distinguishable. Industrial accidents seem to drop in 1927 and 1930, when drinking seems to drop, but the two may be unrelated effects of depressed business. Health in general seems no better because of prohibition; but there has been a drop in deaths from cirrhosis. Against this must be set wood alcohol poisoning. Prohibition has not increased savings, nor clearly affected the buying of radios or even of substitute beverages.

The author notes "that there has been a great economic waste involved in the decentralization of the alcoholic beverage industry, both in the use of productive resources and of labor." Prohibition agents have destroyed property. Beyond this their function seems to have been to take the saloon away from the workers and sell it to the business class as a speakeasy at a billion dollars a year. One might add that the present distribution of the national income is determined partly by the garnering of profits from bootlegging and from the rackets which it has presumably facilitated, and by the receiving of graft.

The book does not undertake to deal with prohibition's re-introduction of household industry and its pleasures and despairs; nor the old competition of small-scale enterprise with large, under these novel conditions; nor the rise of anomalous property-rights and the new imperfections, frictions, and business hazards which have been added to those previously existing in the liquor market.

CARL RAUSHENBUSH

New York University

World Social Economic Planning. (New York and The Hague: International Industrial Relations Institute. 1932. Pp. lxiii, 585; addendum, 587-935.)

The thick volume and addendum contain most of the papers and part of the discussion presented to the World Social Economic Congress at Amsterdam, August, 1931. They follow a "companion publication" under the title of *International Unemployment*, containing analyses of fluctuations in unemployment in certain countries, prepared for study in advance of the Conference. About half the bulk is due to publication in three languages (English, French, German) of most of the leading papers, either in full or in fairly extended synopsis. Discussion of papers is given in the language in which it was presented.

The subtitle—"The necessity for planned adjustment of productive

capacity and standards of living" indicates the character of the material to anyone possibly in doubt. The purpose of the Conference, as of the organization sponsoring it is more to arouse interest than to make a definite scientific contribution of any sort. Judged in the only fair way, with reference to its purpose, not belittled by recognition that it is educational propaganda, the content is of rather surprisingly high quality, relatively free from the pretense of doing what it does not do and from refusal to face the realities of the problem. The papers and discussion form a competent and fair treatment of the subjects proposed, and the program is built around vital topics under the general subject. There are seven main topics: (1) The present paradox—unemployment in the midst of economic progress; (2) Principles and practicability of economic planning; (3) Experience in national economic planning; (4) Necessity and means for international economic planning; (5) Standards of living—the resultant of economic capacity and buying power; (6) Round table conference on the workshop (not reported); (7) The necessity for world social economic planning—reported as a brief summary statement by Dr. Mary Van Kleek, Chairman of the Conference.

It is possible to mention only a few features of the material, perhaps arbitrarily selected. Of outstanding interest to the reviewer, because approaching most closely to the character of a constructive contribution to the problem of the organization, are the papers on "Scientific management and rationalization" (Dr. H. S. Person, Dr. H. v. Haan) and those on Russian experience. Dr. Person seems to press the claims of "Taylorism" far beyond what they will support; he can hardly believe that the rôle of "science" in connection with social or world policy is comparable to its rôle in an enterprise committed to a particular business under competitive conditions. The Russian papers, by high soviet officials, are very disappointing. They show little distinction between fact and prophecy or hope, and little sense of critical standards of analysis. The impression is rather one of amazing naïvété than of any ulterior purpose. Dr. Lorwin in discussion raised questions to which we should like to see the answers. Still more interesting are the short discussion papers by two Germans, Dr. Wilcken and Dr. Pollock, the first comparing Taylorism and the Communist system and the second accusing the Conference generally of having gone back to eighteenth-century notions.

The sixty-five page introductory "Analysis and review of the Congress" by Dr. Van Kleek is a careful and competent summary of what the speakers said and a labor-saving contribution. Her concluding statement, however, rivals Dr. Lorwin's presentation of a five-year plan for the world in pleasant optimism. Much of the discussion, however, is frankly negative in tone, and more is informative, without "tendency."

Dr. Lazard of Paris and, more especially, Dr. Palyi of Berlin might be mentioned as examples of the second style. The critical reader will be struck by several assumptions which tend to recur. For instance: the idea that the world, more or less unanimously, is really much more interested in "standards of living" than in other things which conflict with high standards; that failure to distribute sufficient purchasing power is the key to the economic depression (where it is nearer the truth that it is the necessity to distribute more than there is which causes general paralysis). Finally, even the critical speakers frequently render lip-service to the view that "reason" in man is essentially an organizing principle; unless one believes dogmatically in laissez-faire, individual rationality is rather disorganizing in tendency, suggesting that it needs to be counterbalanced by some authoritarian or sentimentalistic basis of social unity.

Frank H. Knight

University of Chicago

NEW BOOKS

Armstrong, D. B. *A study of sickness cost and private medical practice.* Paper read at the American Medical Assoc. meeting at New Orleans, May, 1932. (New York: Metropolitan Life Insur. Co. 1932. Pp. 13.)

Babson, R. W. *Fighting business depressions: money-making methods for these times.* (New York: Harper. 1932. Pp. x, 249. $3.)

Based on experience of 40 years in the financial districts of New York and Boston. "I am publishing the book with two purposes: first to help those who are now struggling with business, employment and investment problems, and secondly to furnish a record when the next major depression comes about twenty years hence." The dedication notes that posterity must face panics "around 1955 and 1985." The author discusses mass production, mergers, unemployment insurance, advertising, stabilizing the dollar, socialism and planning.

Brown, L. G. *Immigration: cultural conflicts and social adjustments.* (New York: Longmans Green. 1933. Pp. 431. $3.)

Cole, G. D. H. *Economic tracts for the times.* (London and New York: Macmillan. 1932. Pp. vii, 327. $4.)

This book of gleanings from less available periodical sources is sufficiently prompt to be really worth while. With a minimum of repetition and of inconsistency, it falls quite naturally into three parts: the first dealing chiefly with domestic and international problems growing out of the depression; the second with certain reflections on current and classical economic theory; and the third with a more plausible plan for socialization. The longest essay in Part I, entitled "The crisis," is a convincing argument for radical readjustment of international debts and for the devaluation of the British pound by the amount of one-fourth or one-third of its pre-war value. "Free trade and tariffs" traces without severe condemnation the steps by which Great Britain has returned to protection but advocates import boards as a better plan of accomplishing the desired end. Mr. Cole thinks that not only the Bank of England but the joint-stock banks should be

nationalized; but for this, as for other forms of socialization discussed in the last part of the book, he still retains some of his gild socialist ideas respecting the desirability of a degree of detachment from day-to-day political interference. He proposes a public corporation or board comparable to that now controlling the electrical industry in England and that proposed by our own Commissioner Eastman for the railroads.

The author gives no support to the claim that the maintenance of high wage-rates has been an important factor in aggravating unemployment. He holds rather to the Hobsonian thesis of underconsumption. Indeed, it may be doubted whether opinions as to price-economics *vs.* welfare-economics, showing such strong kinship with those of John Ruskin and John A. Hobson, justify the title "New economic theory" used for the first chapter of Part 2. Criticism of the effort of economists to take over and give technical meanings to terms familiarly used in the market-place, instead of creating new terms with less ambiguous meanings, is also not new.

WARREN B. CATLIN

DEVINE, E. T. *Progressive social action.* (New York: Macmillan. 1933. Pp. xiv, 225. $1.75.)

Contains chapters on debts, tariffs, industrial democracy, poverty, and housing problems.

GEE, W. *Research barriers in the South.* (New York: Century. 1932. Pp. ix, 192. $2.25.)

Contains chapters on the salaries and costs of living of teachers in various colleges, particularly in the South.

GILLIN, J. L. *Social pathology.* (New York: Century. 1933. Pp. 620. $3.75.)

GUILD, C. ST. C. *Surveys of the medical facilities in three representative southern counties.* Abstract of pub. no. 23. (Washington: Committee on the Costs of Medical Care. 1932. Pp. 14.)

JEANES, W. W. *Housing of families of the American Federation of Full-Fashioned Hosiery Workers, Local Branch 706, Philadelphia, June-July, 1932.* (Bryn Mawr: Bryn Mawr College. 1933. Pp. 60. $1.)

KELLY, F. J. and MCNEELY, J. H. *The state and higher education: phases of their relationship.* (New York: Carnegie Foundation for the Advancement of Teaching. 1933. Pp. xii, 282.)

Contains sections on financial resources.

LINDNER, E. *Review of the economic councils in the different countries of the world.* (Geneva: League of Nations. Boston: World Peace Foundation. 1932. Pp. 105. 75c.)

MALLERY, J. A. *Public receivers: a plan for universal employment.* (Tacoma, Wash.: Author, P. O. Box 1386. 1933. Pp. 31. 25c.)

MANGOLD, G. B. *Social pathology.* (New York: Macmillan. 1932. Pp. xxii, 736. $3.)

Dr. Mangold has written a good, brief, elementary textbook on social pathology. The problems of the dependent, the defective and the delinquent are covered, as well as the family, immigration, race relations, social legislation, and the various statements of social ideals of religious groups. Perhaps the greatest drawback to the volume is that in covering such a wide range of material of necessity the treatment has to be too brief to cover adequately the basic causes of our difficulties.

In the preface the author has stated that the various social problems are

so interrelated that the world is suffering not so much from social problems as from *the* social problem, but he does not bring out clearly what *the* social problem is, and how it can be solved. Capitalism itself is not subjected to analysis, although it may be a contributory factor in most of the problems discussed.

In the second chapter the author hints at the maldistribution of income and of wealth, but no adequate program is proposed for remedying the situation. Those who desire a brief bird's-eye picture of some of the social maladjustments of our time will find this volume useful.

JEROME DAVIS

MORTARA, G. *Problemi economici dell'ora presente.* (Milan: Coöp. Polig. degli Operai. 1933. Pp. 78.)

NEWFANG, O. *Capitalism and communism: a reconciliation.* (New York and London: Putnam's. 1932. Pp. xviii, 278.)

PATTERSON, E. M., editor. *Essentials for prosperity.* Vol. 165. (Philadelphia: American Acad. of Pol. and Soc. Science. 1933. Pp. 264.)

Collection of papers by different writers. One group treats of the unemployment problem; and another of the gold problem.

PIERCE, B. L. *Citizens' organizations and the civic training of youth.* (Boston: Scribner's. 1933. Pp. xvii, 428. $2.)

PITKIN, W. B. *The consumer: his nature and his changing habits.* (New York: McGraw-Hill. 1932. Pp. xiii, 421. $4.)

A comprehensive volume on the consumer has long been needed. This book presents such a study and combines the known facts from the fields of economics, psychology, physiology, sociology and statistics. From this union of material, Mr. Pitkin builds an interpretation called the "web of life"—the interlocking of the intelligence, energy, age, training and emotions of the consumer to determine what, within the limits of his income, he will buy.

Spending for non-essentials is subjected to a careful analysis. A few of Mr. Pitkin's conclusions indicate the approach: fashion affects only low cost unimportant items; volume consumption does not increase with income, the extra funds going into enhanced quality; the time and energy required to enjoy articles are as significant as money in limiting consumption; "as incomes and cultural levels rise, the preference for superior varieties of personal service gains strength while the craving for factory goods diminishes."

People and the various groupings into which they fall are examined in detail. One breakdown shows that the potential maximum reader market for material above the juvenile level is about eleven million people. Another analysis indicates that "as the percentage of healthy middle-aged consumers increases, it will tend to reduce the gross volume of consumption goods used per capita and to increase the amount of leisure, of personal services, of travel, and of other forms of satisfaction in which manufactured products figure little or not at all." Upon similar analyses, distinct limits to mass production are built up.

The solution of this gloomy problem is to create real homes for the masses of people. "There is no end to improving a home, and never a chance of finishing with all the desires of a family. . . . The only limit to buying here is the purse of the paterfamilias. The most selfish manufacturer in the

world could not appease his greed better in the long run than by working out schemes to persuade men to buy homes by the million." Certain broad social remedies such as adequate homes financed by the government, increased security through preventive medicine, insurance, etc., and a new school policy of teaching people how to consume, are also suggested.

Mr. Pitkin aims at a serious presentation but, apparently, cannot curb his evangelistic spirit. The result is a popular oratorical style which has caused, in turn, a complicated and confusing organization. The reader is, on this account, forced to check the validity of each particular conclusion which appears significant to him and is often led to wonder where fact ends and the author's own personal theories begin.

ALBERT HARING

PRATT, G. K. *Morale: the mental hygiene of unemployment.* (New York: National Committee for Mental Hygiene. 1933. Pp. 64.)

REED, L. S. *The ability to pay for medical care.* Abstract of pub. no. 25. (Washington: Committee on the Costs of Medical Care. 1933. Pp. 16.)

ROMIER, L. *Problèmes économiques de l'heure présente.* (Montreal: Albert Levesque. 1933. Pp. 317. $1.)

SCHLESINGER, A. M. *The rise of the city.* History of American life, vol. x. (New York: Macmillan. $4.)

TODD, A. J. *Industry and society: a sociological appraisal of modern industrialism.* (New York: Holt. 1933. Pp. xiii, 626. $3.)

WALLIS, G. A. and WALLIS, W. D. *Our social world: an introduction to social life and social problems.* (New York: McGraw-Hill. 1933. Pp. 392. $1.60.)

WILLIAMS, J. M. *Human aspects of unemployment and relief, with special reference to the effects of the depression on children.* (Chapel Hill: Univ. of North Carolina Press. 1933. Pp. 251. $2.50.)

Our economic life in the light of Christian ideals. Prepared by a special committee for the dept. of research and educ. of the Fed. Coun. of the Churches of Christ in America. (New York: Assoc. Press. 1932. Pp. xi, 161.)

Housing America. By the editors of *Fortune.* (New York: Harcourt Brace. 1932. Pp. 159.)

Medical care for the American people. Final rep. of the Committee on the Costs of Medical Care. (Chicago: Univ. of Chicago Press. 1932. Pp. xvi, 213.)

After five years of study this Committee has presented its recommendations. The report gives less attention to the economic aspects of medical care than was hoped for by certain members of the Committee; but it does show that more than $3,000,000,000 are spent annually on the various forms of medical service. In addition, it indicates that on the present fee-for-service basis "it is impossible for 99 per cent of the families to set aside any reasonable sum of money with positive assurance that that sum will purchase all needed medical care."

The Committee, after studying the incomes of physicians and dentists, concludes that "no solution to the problem of medical costs can be reached through a reduction in the average of professional incomes." It set forth six essentials of a satisfactory medical program and then endeavored to discover plans that would satisfy these essentials and also provide adequate medical service to the people at reasonable cost. Five recommendations grew out of this investigation. Of these the first and the third are of great-

est importance. The first recommendation suggests that medical service, both preventive and therapeutic, be furnished largely by organized medical groups equipped to give complete home, office and hospital care. The third recommendation supplements this with the suggestion that the costs of medical care be placed on a group payment basis, through the use of insurance, taxation, or of both these methods. If, on the other hand, individuals wish to continue to receive medical service on the old basis, this wish is not to be denied them. These recommendations are based on the fact that the standards of living of average families preclude adequate medical care unless an insurance plan is put in operation. Voluntary coöperative health insurance is definitely recommended and eight members of the Committee endorsed public health insurance for low-income groups.

Several members of the Committee dissented from its recommendations and presented minority reports. These, as is to be expected, oppose progressive measures and favor the *status quo,* or would actually move backward.

This report with its majority recommendations should be hailed as a great forward step. It should become the basis for an educational program which will eventually secure adequate medical care at costs which the public can afford to pay.

George B. Mangold

Probation in New York State. Special rep. by the Commission to Investigate Prison Administration and Construction. (Albany: State House. 1933. Pp. 66.)

Insurance and Pensions

A New Plan for Unemployment Reserves. By Alvin H. Hansen and Merrill G. Murray. (Minneapolis: Univ. of Minnesota Press. 1933. Pp. 75. $1.00.)

This is one of the reports of the University of Minnesota's Employment Stabilization Research Institute. The plan it proposes, based upon Minnesota employment data, contains four features of considerable significance which differentiate it from other unemployment reserve plans. They are:

(1) A very long waiting period, eight weeks at a minimum, which may be increased to as much as sixteen weeks in industries having unusually high seasonal fluctuation;

(2) Unusually large contributions to the reserve fund, four per cent of payroll, two per cent each from employer and employee;

(3) Small weekly benefits, only forty per cent of former average earnings;

(4) An extraordinary long maximum benefit period, forty weeks in any consecutive twelve months, with the possibility of an additional twelve weeks' benefit during a second twelve months, after the expiration of the usual waiting period.

Perhaps the purpose which gave rise to these features should be listed

as the principal new feature. The plan is intended to cover only prolonged unemployment, especially that which accompanies industrial depression. The long waiting period is introduced in order to exclude short-term unemployment in general and seasonal unemployment in particular. "In the United States as compared with Europe," state the authors, "it is quite possible to provide against short periods of unemployment through individual savings, because of the relatively higher standards of living of the wage earning population. The really serious problem confronting the country is that of prolonged unemployment resulting from major business depressions or from technological developments" (pp. 37-38).

The other features contribute to this purpose. The demands of a major depression would require larger funds than could be secured from industry alone—hence the joint contributory plan—while small benefit payments can obviously be continued longer than larger ones.

The plan calls for a state-administered fund, with separate accounts for each employing establishment, but with pooling of reserves among employers in the same industrial grouping wherever such groupings are possible.

The plan is worked out in detail, is admirably constructed, and is summarized with exceptional clarity and conciseness; but it raises some very large questions, the answers to which its authors appear either to have taken for granted or to have considered too lightly. It is important, in dealing with questions of unemployment insurance or reserves, to make a distinction between short-term and long-term unemployment as Hansen and Murray have done. It is true that, in unemployment insurance acts to date, plans which begin the payment of benefits with only a short waiting period have broken down in the face of widespread prolonged unemployment. But is it true that employees can save enough above the demands of all other family contingencies so that no really large problems of distress and relief arise except in cases of prolonged idleness, largely confined to major business depressions? Other students of the problem, and all the state commissions which have thus far reported, answer in the negative. If two separate sets of measures are needed, one for prolonged cases and one for the more common types lasting only a few weeks, it seems doubtful whether the reserve principle should be applied to the former at the expense of the latter.

HARVEY A. WOOSTER

Oberlin College

Standards of Unemployment Insurance. By PAUL H. DOUGLAS. (Chicago: Univ. of Chicago Press. 1933. Pp. xiv, 251. $3.00.)

This valuable work by Professor Douglas makes its appearance at

the most opportune moment, a time when the full force of public opinion is directed not merely at economic recovery, but toward means of alleviating the seriousness of future depression eras. Of the proposed means, unemployment insurance stands in the forefront, and it is with genuine appreciation that an authoritative work on the subject, such as the one in hand, must be received.

The author introduces his subject by presenting the case for unemployment insurance, indicating the extensiveness of unemployment in normal times through technological changes, seasonal industries, and other causes, and finally the tremendous decline in employment during the current depression which has added over eight million to the usual figure of two million unemployed workers. A detailed discussion follows, showing the woefully inadequate protection of the workers in times of prolonged unemployment. The difficulty of accumulating savings under modern conditions of life and the insecurity of such savings, if actually accumulated, through bank failures, employee stock purchases, and bad investments are cited to show that savings cannot be depended upon in periods of depression. Trade-union and employers' schemes are pointed to as covering but an insignificant number of employees, and are apt to disappear under adverse business conditions. Charity by way of private and public agencies is the final resort, and that too is quickly exhausted. The author then shows by statistical calculations how much better off the American workman would be now if unemployment insurance had been adopted when the nation was coming out of the last great depression in 1922.

The weaknesses of voluntary systems of unemployment insurance as against mandatory systems are convincingly demonstrated. The author defines the proper spheres of the national and state governments in unemployment insurance, the former to cover by insurance those industries outside state control, and to stimulate state action by introducing a minimum set of standards as a requisite for federal aid to those states adopting unemployment insurance. A detailed statement as to the proper scope and coverage for an adequate system of insurance is followed by a chapter on the conditions of eligibility for benefit. Benefits graduated according to wages are favored as a means of making benefits correspond roughly to changes in the cost of living. The period for which benefits should be paid is set at not more than 26 and not less than 15 weeks, and in the ratio of one week of benefit for every three weeks of unemployment. Emergency benefits from governmental funds for 13 to 23 weeks are recommended for those who have exhausted their normal benefits.

Professor Douglas contends that contributions should be from employers, employees, and the state. A number of cogent reasons are cited in favor of employees bearing a part of the burden, while the state as a

very minimum should bear the administration costs. Attention is also given to the costs of unemployment insurance and to its administration. In the appendix a complete draft of the Wisconsin Unemployment Compensation act, the *Report of the Interstate Commission on Unemployment Insurance*, the Ohio Unemployment Insurance bill, and the text of the *Report on Unemployment Insurance* submitted to the 1932 convention of the American Federation of Labor are to be found.

E. E. Muntz

New York University

NEW BOOKS

Armstrong, B. N. *Insuring the essentials: minimum wage plus social insurance—a living wage program.* (New York: Macmillan. 1932. Pp. xvii, 717. $5.)

Professor Armstrong's book possesses the two great merits of a comprehensive viewpoint and a wealth of factual data. "The essence of the problem treated in these pages is security," and the methods discussed are those of the minimum wage and the many varieties of social insurance. But these measures, which are often advocated and considered quite separately, and sometives even as alternatives, appear in the author's scheme of thought as integrated parts of "a rounded out legislative scheme for . . . *Insuring the Essentials*. . . . No wage however high could be adequate to meet the expenses of living without the assistance of insurance. . . . Thus insurance, instead of being a substitute for an adequate minimum wage, is the *sine qua non* for making a wage adequate."

In the light of this analysis, the author presents the legislative history of such measures in the many countries in which they have been adopted or seriously considered. "First-hand source materials have been uniformly consulted." The range from which the information has been drawn is really extraordinary; well-planned charts and tables assist in making it serviceable; and at various points independent calculations (like that of "the cost to the workman of the complete security which the German system affords him and his family") indicate that the result is more than a mere compendium. As the author points out, the labor of preparation was "rendered more difficult by the factor of constant growth and change," and the difficulty did not cease when the body of the book went to press. Thus of two outstanding events which occurred between that time and the date of the preface—Wisconsin's passage of an unemployment reserves law and New Zealand's virtual abandonment of compulsory arbitration—one received and the other did not receive a last-minute footnote. American proposals for unemployment insurance would have repaid more searching analysis; there is no serious reëxamination of wage theory; and the comments on the Adkins case, however justified in substance, retain rather too much of the manner of contemporary shock and indignation. On the other hand, the pages which describe the successful enforcement of the California minimum wage law in the face of that decision will be welcomed as among the most valuable in the book.

In these matters, the United States is "the laggard of the Western world." Professor Armstrong, however, suggests that "the position of the laggard can yet be turned to advantage" if we are willing to learn from

"the mistakes and achievements" of other countries. To such learning, her own book makes a notable contribution, and it should be widely used if we are to enter "the decade of social insurance" which President Barnett has predicted.

CARTER GOODRICH

ASBURY, W. and RACKHAM, MRS. C. D. *An abridgment of the minority report of the Royal Commission on Unemployment Insurance.* (London: Fabian Society. 1933. Pp. 78. 3d.)

BUTZEL, B. *A digest of insurance: a survey and an analysis of insurance underwriting, trade usages and customs, supported by excerpts of legal decisions.* (New York: Leonard Pub. Co. 1932. Pp. xvi, 334.)

CRAWFORD, W. S. *The background of fire insurance.* (Cincinnati: National Underwriter Co. 1932. Pp. 159. $2.)

EWING, J. B. *Job insurance.* (Norman: Univ. of Oklahoma Press. 1933. $2.50.)

GILSON, M. B. *Unemployment insurance.* Pub. policy pamph. no. 3. (Chicago: Univ. of Chicago Press. 1933. Pp. 30. 25c.)

KIEHEL, C. A. *Unemployment insurance in Belgium: a national development of the Ghent and Liège systems.* (New York: Industrial Relations Counselors. 1932. Pp. xiv, 509. $3.50.)

This fourth study in a series on unemployment insurance deals with the subject in a nation which is small, highly industrialized, densely populated and distinctly individualistic. The system is mainly a national development of the Ghent and Liège systems. Under both these systems public grants were made on the basis of trade-union membership. No insurance feature attached to the Ghent system, for here the city of Ghent granted relief directly to unemployed persons who were receiving trade-union benefits for unemployment; but under the Liège system there was something of an insurance feature in that the city of Liège made grants to unions on the basis of contributions from and benefits to its members.

Under the stress of war conditions these voluntary, although subsidized, funds failed and the government undertook general relief work. After the war the reëstablishment of voluntary societies was encouraged and subsidies were granted as before, except that state aid was now contingent upon the societies' meeting more stringent and uniform requirements than previously.

The predominant form of relief has been and is through union societies. Unions have encouraged this form of relief because it aided them in attracting members. There is almost entire absence of employer contributions. A large proportion of the cost is furnished by public subsidies.

While voluntary societies care especially for seasonal and other occasional unemployment, the National Emergency Fund was created in 1920 to care for cyclical and emergency relief. This is not an insurance fund, but a direct relief fund and is financed by the national government. However, societies must repay a small part of the relief granted to their members. The creation of this fund constituted probably the first plan for definitely recognizing and dealing with the cyclical fluctuations in employment.

The Belgian system is entirely voluntary. Only about 37 per cent of the total industrial population is covered although about 80 per cent of the

trade-union members are in societies. Both public and commercial employment agencies exist, but no central clearance facilities are utilized.

The study appears to have been made carefully and it is presented effectively. An extensive appendix is included.

H. LaRue Frain

Krogstad, G. A., editor. *Michigan workmen's compensation law.* (Detroit: National Law Printing Corp. 1932. Pp. xiii, 321.)

Latimer, M. W. *Industrial pension systems in the United States and Canada.* Vols. I and II. (New York: Industrial Relations Counselors. 1932. Pp. xxi, 561; 569-1195. $10.)

————. *Trade union pension systems and other superannuation and permanent and total disability benefits in the United States and Canada.* (New York: Industrial Relations Counselors. 1932. Pp. xvi, 205. $2.50.)

McInerney, T., Trayes, G. A. and Volta, V. *Checking the proofs of loss and paying the claim.* Three essays submitted in competition for the Waldemar J. Nichols award for 1932. (New York: Insurance Society of N. Y. 1933. Pp. 35.)

Ward, W. R. *Down the years: a history of the Mutual Benefit Life Insurance Company, 1845 to 1932.* (Camden, N.J.: Haddon Craftsmen. 1932. Pp. 256.)

Essentials of a program of unemployment reserves. (New York: National Industrial Conference Board. 1933. Pp. ix, 68.)

This volume is a supplement to the Conference Board's earlier publication, *Unemployment Benefits and Insurance.* Its foreword explains that the staff report out of which it grew was long under discussion and was revised "in order to make the report in its final form fairly representative of the consensus of opinions of the industrial executives and others whose counsel and advice have been sought in the course of the investigation" (p. vii).

This volume reiterates the Board's opposition to unemployment insurance and displays the usual objections to compulsory legislation and to state administration, exhorting employers to oppose legislation which would take from them the "right" to administer their own unemployment reserve plans. Recognizing that compulsion is probably coming, it suggests principles and a minimum program upon which industry might agree in opposing "objectionable" legislation.

The "stable working force," for whom alone the employer is to assume responsibility, consists of "regular workers" who have "demonstrated their desire and fitness to be associated permanently with the business." Six months or more of service for the same employer is suggested as a minimum criterion of regularity. The employer should be expected to make provision for these workers, however, "only for ordinary seasonal and temporary unemployment and for technological unemployment in normal times." The employee should provide by his own savings against the contingency of "ordinary" unemployment, while the state must take responsibility for unemployment benefits to "temporary" employees and casuals, if these are to receive benefits. The state must assume also the burden of "relief" for depressional unemployment, which is not to be compensated.

Preference for a joint contributory fund is hesitatingly expressed, with contributions from employer and stable employees equal to at least one

per cent of payroll each. Suggested weekly benefits for full-time unemployment are 50 per cent of average weekly earnings but not exceeding $10 a week. Benefits are to be paid, in case of employment at less than half time, to bring the total of wage plus benefit up to 50 per cent of average earnings.

The only unusual feature of the program is the suggestion of a waiting period of eight weeks for full-time unemployment, or twelve weeks for part-time, before benefit payments begin. This feature would leave uncovered a large percentage of seasonal unemployment in most industries. Many employees who lost more time than this could probably be given "temporary" classification, and left wholly uncovered. With only "stable" employees covered in any case, the cost to employers would be small and the value of the plan slight. What may be included in the "fitness to be associated permanently with the business," which is essential to eligibility, the reader is left to guess for himself. Nor does it appear what would happen to workers permanently dismissed from the "stable working force" of any one employer for economic reasons. In some of the best private plans such cases are excluded from the benefit plan with only a small dismissal wage.

The reader will find convenient the very brief summaries of state commission reports (pp. 12-18) and the tabular analysis and digests of private unemployment benefit and employment guaranty plans (pp. 44-68).

HARVEY A. WOOSTER

The record of insurance during the depression. Round table on insurance at a joint session of the American Economic Association and American Statistical Association held at Cincinnati, December, 1932. (Urbana: American Assoc. of Univ. Teachers of Insurance. 1933. Pp. 39. 50c.)

Unemployment insurance and relief in Germany. (New York: National Industrial Conference Board. 1932. Pp. xvi, 107. $2.)

This study, which is concerned largely with the financial aspects of German unemployment insurance and relief, was undertaken to shed light on the possibilities involved in current proposals to establish unemployment insurance or reserve schemes in the United States.

During the first four years of its operation, the German scheme experienced constantly increasing deficits totalling $364.9 million, which were assumed by the federal government. When the government refused to assume further deficits, changes were made which almost completely eliminated the insurance element. Insured married women were denied benefits as a legal right. Regular benefits were limited to 36 days, with emergency relief for 13 additional weeks for those without other adequate support. They were made, also, to vary according to size of city rather than basic wage, and were greatly reduced. These drastic changes made it possible to show a surplus of $5,274,000 for 1931-1932. But this surplus was used for emergency and welfare relief and not for insurance benefits. Ever increasing numbers were thrown upon welfare relief. Whereas at the end of 1929, 14.2 per cent were receiving welfare relief, by October, 1932, the percentage had increased to 56.2. This has meant a heavy financial burden on the communes.

It is said that the best informed people in Germany recognize that the insurance scheme has broken down and advocate a system based on the following principles: "(1) unemployment is not an insurable risk; (2)

unemployment relief should be paid for by the nation as a whole; and (3) relief should be given not as a legal right but only to persons who are in need and in proportion to the degree of that need."

The great lesson to be learned from Germany's experience, we are told, is that unemployment insurance cannot succeed, for depressional unemployment is not an actuarial risk and its insurance cannot have a sound financial basis. The American argument that any system is better than none is called a "counsel of despair." The best thing for us to do is to set up supplemental and coördinated systems of state unemployment relief. Here the principal lesson from German experience is that an efficient system of placement agencies is essential to test ability and willingness to work, although it need not be a central and independent governmental system. Funds could be collected from a special emergency tax on all wages and salaries regardless of size. These funds should be used only to relieve unemployment not cared for by private welfare agencies, for the remarkable feeling of social responsibility existing in this country should under no circumstances be impaired.

This book thus looks to the past rather than to the future. Unemployment insurance assuredly cannot care for chronic and prolonged depressional unemployment. Yet it is not clear that without compulsory unemployment insurance even a well integrated system of unemployment relief, with its essential concomitant of coördinated state-wide placement agencies, can be developed. And to increasingly large numbers, the conclusion that a system of relief should be based on the essentially disgraceful principle that the first recourse of society's unfortunates should be "'sweet charity," is indeed a "counsel of despair."

Domenico Gagliardo

Socialism and Co-operative Enterprises

NEW BOOKS

Andreae, W. *Kapitalismus, Bolschewismus, Faschismus.* (Jena: Fischer. 1933. RM. 9.)

Blanshard, P. *Technocracy and socialism.* (New York: League for Industrial Democracy. 1933. Pp. 14. 5c.)

Eggleston, F. W. *State socialism in Victoria.* (London: P. S. King. Pp. 346. 15s.)

Elster, K. *Der Rubel beim Aufbau des Sozialismus: zum heutigen Stande der Sowjet-Währung.* (Jena: Fischer. 1933. Pp. vii, 109. RM. 6.)

Lenin, N. *State and revolution: Marxist teaching about the theory of the state and the tasks of the proletariat in the revolution.* Rev. transl. from the Russian. (New York: Internat. Pubs. 1932. Pp. 103. $1.50.)

Strachey, J. *The coming struggle for power.* (New York: Covici Friede. 1933. Pp. viii, 399. $3.)

It would be inadequate to dismiss this book with the characterization that it is a study of the intellectual road travelled by a member of the British Labor Party as the impact of political and economic events led him to an acceptance of communism. For it undoubtedly possesses a wider significance and even the American student, whatever his estimate of Mr. Strachey's conclusions, will find the analysis of current trends and the commentaries on Keynes (see Chapters 5 and 6) genuinely illuminating.

The thesis is developed that capitalism as a system organized to maintain a "free market" both for goods and for labor contains within itself the seeds of its own undoing. Four characteristic fatal defects are described. First, there exists under present conditions a strong tendency to the growth of monopolies. Second, nationalism has become a dominating factor. Third, money has become to an increasing extent "unstable." And fourth, capitalism has become more and more subject to the "recurrence of crises." In combination, says Mr. Strachey, the working of these four tendencies is creating a situation where either competing imperialisms must struggle together to wrest dominion from each other, or the workers of the world must eventually unite in a federation of interdependent economies in which the objective is a classless community of people working for themselves and for each other.

The argument is in behalf of a non-competitive society in which "crucial questions of (1) what work is to be done, (2) who is to do it, and (3) who is to receive its fruits, are not left to the motives of the market, but are consciously predetermined by some person or persons." The necessity of a "dictatorship" during a transitional era is forcefully presented.

The analysis of the British Labor Party's abdication from revolutionary interest is biting and scathing—and no doubt justified from the author's point of view. In short, this is the first definitive volume from an English communist which in diagnosis and synthesis sets forth a plea for communism which is free from the vocabulary and the mental background of the continental and Marxist writers. It is English to the core; and to the American reader that at least will insure an intellectual excursion of a provocative sort which, whether or not it has his agreement, will certainly gain his sympathetic understanding more readily than if the book bore the imprimatur of the Third International.

Ordway Tead

Statistics and Its Methods

The National Income, 1924-1931. By Colin Clark. (London: Macmillan. 1932. Pp. x, 167. $2.75.)

Since the account of the *National Income of the United Kingdom* in 1926 by Bowley and Stamp, there has been no systematic examination of its amount and changes, and Mr. Clark's intention is to supply this want. He follows the familiar method of studying separately (a) income assessed to income tax, (b) wages and (c) income intermediate between or not included in the first two groups. Since the exemption limit for income tax has been lowered to £100 per annum, the content of (c) is reduced to only about 5 per cent of the total and little depends on exact estimates for it—a fortunate circumstance since the data relating to it are scanty and difficult to handle. There are difficulties in connection with (a), but with expert knowledge these are again of a minor character in normal years, though in years of rapid change the validity of the assessments is open to question, and it is difficult to assign the exact dates to which the figures should be related. Apart from questions of definition, such as the

transfer of incomes by public expenditure, income received from or payable to persons or governments overseas, etc., the total (a) plus (c) can be assigned within a small percentage of error, though not correctly to £1 *Mn* as Mr. Clark implies. Apart from wages Mr. Clark computes the income in 1926 at £2173 *Mn* as compared with £2203 ± £70 *Mn* estimated by Bowley and Stamp.

The data relating to the national wage bill are complex and incomplete. The changes in rates of time wages are ascertainable, but for earnings, whether on piece rates or for overtime, there are only the partial accounts for industrial occupations in 1924 and 1930, with more complete and frequent statements for coal-mining. The information about earnings in agriculture is very incomplete. The main difficulty, however, is the ascertainment of the total number of wage-earners in all occupations. The principal novelty introduced by Mr. Clark is to base the numbers on the statistics of insurance for illness and unemployment, while former estimates have depended on the data provided by the *Census of Population*. None of these sources gives a total that is co-extensive with the number of wage-earners. Mr. Clark's estimate is at least a million short of that suggested by the *Census of Population*, and in the end his total number of persons with incomes from any source is 6 per cent smaller than the number estimated in the account given by Bowley and Stamp. The discrepancies cannot be fully explained till the statistics of occupation in the 1931 *Census of Population* are available. The aggregate "social income" for 1926 is given by Mr. Clark as £3586 *Mn*, as compared with £3800 ± 100 *Mn* in the earlier estimate. The author is definitely wrong in his comparison (p. 63) between his estimate for 1924 and the estimate on the former basis for 1911, for the latter is on the same basis as the higher estimate for 1924.

The estimates for the period 1924 to 1931 all suffer from the use of hazardous computations, open to considerable criticism, which are implicitly taken as exact. Quite important statements depend on the results of subtracting one inexact estimate from another. Though there is a great deal of interesting material, some of it novel, brought into account, no confidence can be felt in the results, especially as the arguments are often very difficult to follow. We therefore do not quote any of the subsequent figures, lest they should obtain currency before they have been modified or verified. There is, however, little doubt that the total and per capita money income of the United Kingdom increased between 1924 and 1929 in spite of the fall of prices, and diminished after 1930 more rapidly than did the value of money.

A. L. Bowley

Harpenden, Herts, England

NEW BOOKS

Connor, L. R. ***Statistics in theory and practice.*** (New York: Pitman. 1932. Pp. 386. $3.75.)

Frisch, R. ***Pitfalls in the statistical construction of demand and supply curves.*** (Leipzig: Hans Buske. 1933. Pp. 39. RM. 3.60.)

Karsten, K. ***Scientific forecasting: its methods and application to practical business and to stock market operations.*** (New York: Greenberg. 1931. Pp. vii, 271. $4.)

In a sense, this book represents a report to the scientific world of the forecasting work pursued by the Karsten Statistical Laboratory, comprising the computation of "barometers" to forecast various series of economic data. The forecasted series are rather inclusive containing, among others, bank debits, interest rates, wholesale prices, and various group indexes of stocks. The lags provide forecasts varying from 2 to 6 months. In each case the forecast is run 3 years into a future test period on the basis of relationships established in an earlier period of about 10 years. Each series included in each barometer presumably is picked on the basis of established logical relationships and in many cases series are adjusted before inclusion in the barometer, sometimes by Karsten's well-known "quadrature" device. As soon as a barometer deviates widely from the forecasted series for a few months, it is revised. The barometer for all prices of stocks on the New York Stock Exchange failed to produce acceptable results; and, although no substitute barometer is offered, it is discussed in some detail.

Some brief discussion is offered on the effects, need, province, and use of forecasts. This includes such topics as comparable effects upon the forecasted of price and economic condition forecasts, the irrationality of selling forecasts of speculative price levels, and the fallacy of judging forecasts entirely by results.

A long discussion is given to the problem of how profitable trading can be conducted having known the relative movements of stock groups, regardless of the correctness of the forecast of the general stock market. Although the social advantages of such trading probably form the strongest logical reason for believing in the validity of such forecasts, Karsten does not go into this problem.

The amount of work involved in computing the barometers must have been tremendous. However its scientific value is marred by two considerations. First, accurate statements of weights and types of correlation used are avoided. Second, as noted on the book cover, "It was necessary to reduce the amount of statistical material and computations illustrating the exact method." That this was done "after the manuscript of this book had been completed" may account for the technical language in which the discussion proceeds and the failure to answer questions of fundamental interest to the statistician. There is a curious inconsistency between the contents listed on the cover and contained in the book, possibly indicative of the eliminated material. There is no bibliography nor reference to a complete statement of certain interesting suggestions such as "A new function for use in multiple correlation work has been discovered by E. C. Karsten" (p. 50).

This book represents the furthest advance in the development of forecasting according to a rigid statistical ideal: Get series showing logical relationship to the one to be forecasted, however much manipulation is

necessary. Find the statistical relationship and combine in a barometer. Put complete faith in such barometers. Whatever one may think of the ultimate success of this kind of forecasting, it seems destined to have an important effect upon development at this stage.

ELMER C. BRATT

KUCZYNSKI, R. R. *Fertility and reproduction: methods of measuring the balance of births and deaths.* (New York: Falcon Press. 1932. Pp. 94.)

KUZNETS, S. *Seasonal variations in industry and trade.* (New York: National Bureau of Economic Research. 1933. Pp. xxiv, 455. $4.)

LANGE, O. *Die Preisdispersion als Mittel zur statistischen Messung wirtschaftlicher Gleichgewichtsstörungen.* Veröffentlichungen der Frankfurter Gesellschaft für Konjunkturforschung, neue Folge, Heft 4. (Leipzig: Hans Buske. 1932. Pp. 56. RM. 4.)

Violent change in the relationships between the individual elements in a price system is a symptom of economic instability. In this respect the variations of an index of the dispersion of price changes are more significant than the fluctuations of a general price level. Indeed, Mr. Lange suggests, such an index of dispersion can be made to measure the extent of departure of an economy from a "static equilibrium." For purposes of analysis of economic processes it would be useful to have a means of distinguishing between "shifts" and "disturbances" of equilibrium. Lange argues that an index of the dispersion of the changes in the *trend* values of the individual price elements provides this criterion, inasmuch as it is a statistical expression of the gradual, anticipated changes in price relationships, that is, of the tendency toward a *shift* of equilibrium. Thus, if in a particular set of price fluctuations the dispersion of actual changes should be greater than the dispersion of trend relationships, the fluctuations are to be interpreted as symptomatic, not of a shift, but of a *disturbance* of equilibrium. The more the dispersion of actual changes exceeds the dispersion of changes in trend values, the greater is the departure from a shifting equilibrium. On the basis of such reasoning, Lange develops formulae for obtaining a "coefficient of equilibrium disturbances." He believes that this method of measuring economic instability can be applied in studies of production, wages, and profits, as well as commodity prices. Mr. Lange has clearly and concisely presented an interesting, valuable suggestion.

CARL T. SCHMIDT

RHEA, R. *The Dow theory: an explanation of its development and an attempt to define its usefulness as an aid in speculation.* (New York: Barron's. 1932. Pp. xi, 252.)

The author and the Dow theory itself are little concerned with the economic or social significance of the business cycle. The Dow theory is a system for profitably forecasting the price movement of good securities, and the author's purpose is to give to the public the benefit of his long study and practice of the Dow theory. He has profited financially, so he hopes that others may do the same. The author has rendered a great service to students of investment and the business cycle by collecting all the financial editorials (1903-1929) written by William Peter Hamilton, late editor of *The Wall Street Journal,* "whose editorial comment on the stock price movement aided many of his readers to become successful traders," as the

dedication points out. These editorials are included so that any reader questioning the author's interpretation of Hamilton's comment "may read the text . . . and draw his own conclusions."

The book should prove a valuable manual for speculators and investors who wish to apply the Dow theory. It is very readable, non-technical, and brief. The organization is rather unusual inasmuch as the 111 pages are divided into 19 chapters, the majority of which do not exceed 6 pages. The author has great respect for Hamilton's forecasting ability and states that investors using the Dow theory "should be able to make at least seven profitable turns out of every 10 efforts—and each profitable trade should net a gain in excess of the loss on a trade improperly timed."

It is interesting to compare these results with those presented by Mr. Alfred Cowles at the meeting of the American Statistical Association in Cincinnati, Ohio, on December 31, 1932: "From December 1903 to December 1929, Hamilton, through the application of his forecasts to the stocks composing the Dow Jones industrial averages, would have earned a return, including dividend and interest income, of 12 per cent per annum. In the same period the stocks composing the industrial averages showed a return of 15.5 per cent per annum. Hamilton therefore failed by an appreciable margin to gain as much through his forecasting as he would have made by a continuous outright investment in the stocks composing the industrial averages. He exceeded by a wide margin, however, a supposedly normal investment return of about 5 per cent."

From this it seems as if frequent changes in an investment program are inadvisable although the period used in reaching this conclusion became exceptional at the end. But Hamilton died in 1929—few men are so fortunate as to die at the right time!

HARRY PELLE HARTKEMEIER

SNIDER, J. L. *Business statistics: a book of cases and materials.* 2nd ed. (New York: McGraw-Hill. 1932. Pp. xi, 498. $5.)

Part 1 presents four cases dealing with forecasting the price of an individual commodity; Part 2 treats of measurement and forecasting the position of five industries—iron and steel, building, automobiles and tires, railroads and agriculture; Part 3 discusses measures of general business conditions. The appendices contain numerical data, sources of current business statistics and a brief description of statistical methods.

WARREN, S. W. *Multiple correlation analysis as applied to farm-management research.* Memoir 141. (Ithaca: Cornell Univ. Agric. Exp. Station. 1932. Pp. 37.)

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In the Trade Information Series have been published No. 811, *The Leather Trade of the United Kingdom, with Notes on the General European Leather Situation,* by W. B. Hertz (pp. 19, 5c.); No. 812, *Foreign Tariffs and Commercial Policies during 1932,* by Henry Chalmers (pp. 19, 5c.). This, prepared by the chief of the Division of Foreign Tariffs, deals with trade control measures, import quotas or license restrictions, foreign exchange control and the Ottawa conference.

The Bureau of the Census in its Census of Distribution has issued bulletins on *The Wholesale Hardware Trade* (pp. 55, 5c.); *Wholesale Electrical Trade* (pp. 68, 10c.); *Multiple Types of Wholesaling: A Study of Establishments Engaged in Two or More Types of Wholesaling* (pp. 44).

The Bureau of the Census has issued a bulletin on *Location of Manufactures, 1899-1929,* a study of the tendencies toward concentration and toward dispersion of manufactures in the United States (pp. 67, 10c.).

The Bureau of the Census has published a series of reports on chain stores as documents from the 72nd Congress, 2nd Session: No. 142, *Chain-Store Private Brands* (pp. 126, 10c.); No. 153, *Short Weighing and Over Weighing in Chain and Independent Grocery Stores* (pp. 42, 5c.); No. 156, *Sizes of Stores of Retail Chains* (pp. 50, 5c.); No. 170, *Quality of Canned Vegetables and Fruits* (pp. 53, 5c.); No. 178, *Gross Profit and Average Sales per Store of Retail Chains* (pp. 75, 10c.).

From the Bureau of the Census have been received the following bulletins: on agriculture, *Statistics by Color and Tenure of Farm Operator* (pp. 153); *Farm Operators by Age, Number of Years on Farm, and Days of Other Occupation* (pp. 135); *Farm Mortgages and Farm Taxes* (pp. 64); on occupation statistics, *Age of Gainful Workers* (pp. 158); *Marital Condition of Occupied Women* (pp. 72).

The Bureau of the Census has issued its final volume on *Manufactures: 1929, Volume II, Reports by Industries* (pp. 1417, $3.).

The Federal Trade Commission has prepared a report on *Price Bases Inquiry: The Basing-Point Formula and Cement Prices* (March, 1932, pp. 218). This is reviewed in the present issue under the section of Accounting and Business Methods.

Investigation and Suspension Docket No. 3234 of the Interstate Commerce Commission deals with *Fresh Meats and Packing-House Products to, from, and between Points in Southern Territory* (pp. 257-342). This decision was rendered in February, 1933.

Labor

The federal Bureau of Labor Statistics has issued the following bulletins: No. 567, *Wages and Hours of Labor in the Iron and Steel Industry, 1931* (December, 1932, pp. 166, 15c.).

No. 570, *Wages and Hours of Labor in Foundries and Machine Shops, 1931* (December, 1932, pp. 148, 10c.).
No. 572, *Wholesale Prices, 1931* (January, 1933, pp. 114, 10c.).
No. 573, *Wages and Hours of Labor in Metalliferous Mines, 1924 and 1931* (January, 1933, pp. 64, 10c.).
No. 575, *Wages and Hours of Labor in Air Transportation, 1931* (January, 1933, pp. 41, 5c.).
No. 576, *Wages and Hours of Labor in the Slaughtering and Meat-Packing Industry, 1931* (February, 1933, pp. 165, 15c.).
No. 578, *Wages and Hours of Labor in Gasoline Filling Stations and Motor-Vehicle Repair Garages: 1931* (February, 1933, pp. 89, 10c.).

The Women's Bureau of the federal Department of Labor has issued Bulletin No. 100, *The Effects on Women of Changing Conditions in the Cigar and Cigarette Industries*, by Caroline Manning and Harriet A. Byrne (pp. 187); and Bulletin No. 101, *The Employment of Women in Vitreous Enameling*, by Ethel L. Best (pp. 64, 10c.).

The Children's Bureau of the federal Department of Labor has issued Publication No. 214, *The Illegally Employed Minor and the Workmen's Compensation Law*, by Ellen N. Matthews (pp. 226, 15c.).

From the International Labor Office at Geneva have been received bulletins from the seventeenth session of the International Labour Conference. Among these are the reports of the governing body upon the working of the conventions concerning the following: *The Compulsory Medical Examination of Children and Young Persons Employed at Sea* (pp. 17); *The Use of White Lead in Painting* (pp. 26); *The Minimum Age for the Admission of Young Persons to Employment as Trimmers or Stokers* (pp. 16); *Unemployment Indemnity in Case of Loss or Foundering of the Ship* (pp. 15); *The Age for Admission of Children to Employment in Agriculture* (pp. 19); *Workmen's Compensation in Agriculture* (pp. 16); *The Rights of Association and Combination of Agricultural Workers* (pp. 13); *The Application of the Weekly Rest in Industrial Undertakings* (pp. 38).

Public Finance

The preliminary report of a subcommittee of the House Committee on Ways and Means relative to Federal and State Taxation and Duplications therein has been printed for the use of the Committee on Ways and Means (pp. 328).

The United States Tariff Commission has made its report to the President in the second series as follows: No. 54, *Optical Fire-Control Instruments* (pp. 14, 5c.); No. 56, *Upholsterers' Nails, Chair Glides, and Thumb Tacks, Finished or Unfinished* (pp. 18, 5c.); No. 58, *Folding Rules, Aluminum and Wooden* (pp. 16, 5c.); No. 62, *The Cigar Industry and the Tariff* (pp. 24. 5c.).

NOTES

The next annual meeting of the American Economic Association will be held in Philadelphia, December 27-29, with headquarters at the Benjamin Franklin Hotel.

The members of the Nominating Committee of the American Economic Association are: Professor Frank A. Fetter, chairman, Francis Tyson, C. T. Murchison, Alvin H. Hansen, George W. Dowrie, and James Bonbright. Suggestions in regard to officers may be sent to the chairman or to any member of the committee.

The following names have been added to the membership of the American Economic Association since January 15:

Ballinger, R. A., Dept. of Agric. Economics, Oklahoma A. and M. College, Stillwater, Okla.
Buckman, A. G., c/o The N.C.R. Co., 205 E. 42nd St., New York City.
Calder, J., Springfield College, Springfield, Mass.
Clark, G., 500 Riverside Dr., New York City.
Corbett, R. B., 124 Alfred Droune Rd., West Barrington, R.I.
Freeman, C. A., 4410 Holliday St., Brentwood, Md.
Gates, H. S., 102 Pacific Southwest Bank Bldg., Pasadena, Calif.
Gragg, C. I., Harvard Business School, Soldiers Field, Boston, Mass.
Harlan, C. L., Div. of Crop and Live Stock Estimates, U. S. Dept. of Agric., Washington, D.C.
Harvill, R. A., Box 247, Duke University, Durham, N.C.
Hodde, F. H., 3634 Woodford Rd., Cincinnati, Ohio.
Hoover, E. M., Jr., 62-A Wendell St., Cambridge, Mass.
Jefferson, L. P., Massachusetts State College, Amherst, Mass.
Jordan, Mrs. F. R., 2 Avon St., Cambridge, Mass.
Knight, C. L., Box 36, Logan Hall, University of Pennsylvania, Philadelphia, Pa.
Krueger, P. F., University, Alabama.
Langum, J. K., 715 N. Nevada, Colorado Springs, Colo.
Mikoljon, S. J., 150 Passaic St., Passaic, N.J.
Nathan, O., Reichswirtschaftsministerium, Viktoriastrasse 33/34, Berlin W. 10, Germany.
Nissley, H. R., Dept. of Economics, Texas Technological College, Lubbock, Texas.
Patton, E. B., State Dept. of Labor, 80 Centre St., New York City.
Peck, G., 220 W. 24th St., New York City.
Phipps, I. R., 255 Park Ave., Munsey Park, Manhasset, L.I., N.Y.
Pingrey, H. B., Colorado Agricultural College, Fort Collins, Colo.
Prior, J. H., Board of Education, 228 N. La Salle St., Chicago, Ill.
Pyle, H. G., School of Engineering, Pennsylvania State College, State College, Pa.
Scott, D. R., University of Missouri, Columbia, Mo.
Sergott, E. T., 3905 Spruce St., Philadelphia, Pa.
Sherman, J. H., 630 N. Kenilworth Ave., Oak Park, Ill.
Shewhart, W. A., 158 Lake Dr., Mountain Lakes, N.J.
Smith, W. B., Dept. of Economics, Williams College, Williamstown, Mass.
Smola, F. A., 4249 Drexel Blvd., Chicago, Ill.
Thiel, O., Holy Name College, 16th and Shepherd, N.E., Washington, D.C.
Theobald, A. D., 200 Chestnut St., Chicago, Ill.
Wilson, H. A., c/o Bell Telephone Co. of Canada, 194 Hunter St. W., Peterborough, Ontario, Canada.

At its meeting on March 18, 1933, the Census Advisory Committee adopted the following resolution on the occasion of Mr. Steuart's retirement from the position of Director of the Census:

Over a decade ago, with the rich experience already gained by years of service in the Bureau, as Chief of the Division of Manufactures, as Chief Statistician, and as Assistant Director, Mr. Steuart finally assumed full responsibility for completing the Fourteenth Census as Director; and remaining in that office he has now brought to a successful completion the great task of taking the Fifteenth Census.

His administration has been characterized by a broad spirit of coöperation both within the government service, and also with unofficial scientific, social and business organizations. This Census Advisory Committee, under the leadership of the late W. S. Rossiter, and with the help of many able members not now sitting with us, has functioned effectively only because of Mr. Steuart's constant desire to improve and extend the Bureau's activities. To the character and success of his efforts the organization, administration and results of the Fifteenth Census bear eloquent testimony.

The members of the Census Advisory Committee, both as individuals and as representatives of the American Economic Association and the American Statistical Association, desire to record their high respect for and appreciation of the distinguished public service and the notable personal achievements of Director William M. Steuart as he relinquishes, on March 31, 1933, the arduous duties of his office. Furthermore, we assure him of our continued good wishes in all his future activities.

The Social Science Research Council announces the award of 42 grants-in-aid of research, 15 new fellowship appointments, 2 fellowship re-appointments for periods of one year, and 2 fellowship extensions for less than one year. The grants-in-aid totalled $19,290; the fellowships, $49,000.

Among these grants-in-aid are: Howard F. Barker, economist, United States Tariff Commission, to aid in the completion of a study of the status of British, German and French nomenclatures in the seventeenth century; Earl E. Cummins, professor of economics, Union College, to aid in the completion of a study in the history, practice and philosophy of carpenters' craft unionism; Edgar A. J. Johnson, assistant professor of economics, Cornell University, to aid in the completion of a study of the British mercantilists; Susan M. Kingsbury, professor of social economy, Bryn Mawr College, to aid in editing the records of the Virginia Company of London; A. R. M. Lower, professor of history, Wesley College, to aid in the completion of a study of the Canadian timber trade in the nineteenth century; Arthur F. Lucas, associate professor of economics, Clark University, to aid in the completion of a study of recent changes in the structure of British industry with reference to the problem of monopoly control; Curtis P. Nettels, associate professor of history, University of Wisconsin, to aid in the completion of a study of the money supply of the American colonies before 1720; Max Sasuly, lecturer, American University, to aid in the completion of a study of principles and techniques of population analysis; Paul S. Taylor, associate professor of economics, University of California, to aid in the completion of a study of coöperatives and barter exchanges among the unemployed.

Among the fellowships are: W. Ellison Chalmers, research associate in economics, University of Wisconsin, for a study of psychological contributions to the analysis of the relations of unorganized labor and employers, to be carried on in the United States; Howard S. Ellis, assistant professor of economics, University of Michigan, for a study of municipal socialism in Vienna; Paul W. Gates, assistant professor of history, Bucknell University, for a study of the operation of the federal land system, to be carried on in the United States; Arthur W. Marget, professor of economics, University of Minnesota, for a study of current developments in economic theory in Italy.

The closing date for the receipt of applications for grants-in-aid for the academic year 1934-35 will be February 1, 1934; for fellowship applications, December 1, 1933. In order to facilitate the filing of applications on the proper blanks before the closing dates, it is requested that persons interested communicate with the secretary for fellowships and grants-in-aid, 230 Park

Avenue, New York City, as early in the autumn of 1933 as possible. The first letter of inquiry should include a brief statement of the candidate's proposed plan of work and of his academic and professional record.

The Wellesley Summer Institute for Social Progress will be held at Wellesley College, July 1-15. There will be lectures on unemployment, standards of living, money and credit and international aspects of our economic situation. In addition there will be round tables. For information write to Dr. Alfred D. Sheffield, 31 Madison Street, Cambridge, Mass.

Among the subjects to be discussed by the Society of Industrial Engineers' convention to be held in connection with the Chicago World Fair during the week beginning June 25 are: "Recent Social Changes and Their Effect on Economic Life," "Unemployment Insurance" and "Consumers' Acceptance the Hub of Merchandising Plans." These meetings will be held at Hotel Stevens.

Ohio State University announces plans for a curriculum which will lead to the degree of master of business administration.

The Pacific Coast Economic Conference will hold its 1933 meetings at the University of Washington at Seattle.

At a dinner given to Dr. Edwin F. Gay of Harvard University last December a volume of essays written by his former students was presented to him. This volume is entitled *Facts and Factors in Economic History* and is published by the Harvard University Press. It contains 34 articles by economists, historians, and business men.

At the twenty-sixth annual meeting of the Mississippi Valley Historical Association, held in Chicago, April 13-15, papers were presented on "The Bonds of the State of Mississippi," by R. C. McGrane, University of Cincinnati, "The Authorship of the Gold Plank in 1896," by Marian Silveus, Pittsburgh, "The Dollar Diplomacy of the Revolution," by Thomas P. Abernethy, University of Virginia, "The Place and Purpose of Economic History in an Economics Curriculum," by Lewis Severson, Beloit College, and "The Economic Approach to History," by L. R. Eckhardt, DePauw University.

The Academy of World Economics held a meeting on April 1 at the University of Virginia. Papers were read on "Current Trends in Foreign Tariff Policies," by Henry Chalmers, "Tariff Walls and Commercial Policy," by Abraham Berglund, "The Bearing of Recent Tariff Legislation upon International Relations," by Philip G. Wright, and "International Distribution of Economic Power," by David Friday.

The Executive Committee of the Southern Economic Association has voted to issue a quarterly economic journal. Further information may be obtained from Professor James B. Trant, president of the association, Louisiana State University, Baton Rouge, Louisiana.

A new quarterly entitled *Economic Forum* has appeared (New York, 66 W. Twelfth Street, $2.).

The Economic Society of South Africa has begun the quarterly publication of *The South African Journal of Economics*. This takes the place of the present biennial publication of the Society. (Editorial Board, P.O. Box 5316, Johannesburg.)

The Public Library of Newark, New Jersey, has published a pamphlet entitled *Business Magazines, Classified by Subject*, compiled by Marian C. Manley, Branch librarian of the Newark Business Branch (pp. 31, $1.). This is the third edition of a list first appearing in 1926, and deals with over 300 periodicals. There are two lists, alphabetical and subject.

The Program for the World Economic Conference has been published with an introduction by James W. Angell of Columbia University. (Boston: World Peace Foundation, 1933, pp. 93.)

Appointments and Resignations

Adolf A. Berle, Jr., professor of corporation law at Columbia University, has been appointed special assistant to the Reconstruction Finance Corporation.

Denzel C. Cline of Princeton University has been promoted to assistant professor of economics.

Kenneth Duncan, head of the department of economics at Pomona College, has been appointed visiting professor at the summer school of the National University of Mexico in Mexico City.

Alvin H. Hansen, professor of economics at the University of Minnesota, will give courses in economics at Stanford University during the summer quarter.

Alfred E. Harsch, assistant professor in the department of economics and business administration at the University of Washington, was recently appointed director of the Income Tax Division of the newly created Washington Tax Commission, with headquarters in Olympia. Professor Harsch was granted an indefinite leave of absence from his academic duties.

Saul Herman of the University of Washington will assume the work of Professor Harsch of the same university during the latter's leave of absence.

Willard E. Hotchkiss, lecturer in economics in the School of Commerce, Accounts and Finance of New York University, has been elected president of the Armour Institute of Technology at Chicago.

Eliot Jones of Stanford University will teach courses in railroad and public utility regulation at the University of Michigan this summer.

Simeon E. Leland of the University of Chicago has been appointed a member of the Illinois State Tax Commission and has been granted leave of absence from academic duties during the coming year.

Arthur F. Lucas, associate professor of economics at Clark University, will spend the summer in England investigating British policy relative to business combinations during the past decade.

Arthur W. Marget of the University of Minnesota upon the invitation of the University of London delivered in the spring four lectures at the London School of Economics on "The Natural Rate of Interest." The lectures will be published in book form.

George M. Modlin of the department of economics and social institutions in Princeton University has been promoted to the rank of assistant professor.

W. I. Myers, on leave of absence from Cornell University, has been appointed assistant to the chairman of the Federal Farm Board. Since 1920 Dr. Myers has been teaching and conducting research in coöperative marketing and farm finance at Cornell.

Mrs. Nilan Norris has been appointed instructor in economics at Vassar College for the year 1933-34.

Albion G. Taylor, head of the school of economics and business administration at the College of William and Mary, will teach during the summer at the University of California at Los Angeles.

T. E. Thompson has returned to his duties in the department of business organization at Ohio State University after fifteen months with the Bureau of the Census as industrial analyst and three months with the Institute of Economics in connection with one of its studies on *America's Capacity to Produce.*

Rexford G. Tugwell, professor of economics at Columbia University, has been appointed Assistant Secretary of Agriculture.

Accounting, Business Methods, Investments and the Exchanges

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Public Finance, Taxation, and Tariff

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